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How Employers Set Pay For Apprentices

**Final report
prepared for
Low Pay Commission
By**

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November 2020

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Acronyms

AR	Apprentice Rate
APS	Apprenticeship Pay Survey
BEIS	Department for Business, Energy and Industrial Strategy
CSR	Corporate Social Responsibility
DA	Devolved Administration
IER	Institute for Employment Research
LPC	Low Pay Commission
NLW	National Living Wage
NMW	National Minimum Wage

Executive Summary

Introduction

The University of Warwick Institute for Employment Research (IER) was commissioned by the Low Pay Commission (LPC) to undertake research into how employers set the pay of apprentices. The research was commissioned prior to the COVID-19 pandemic but the fieldwork has been carried out during it. Originally, the interviews were planned for April-May 2020, but due to the pandemic were delayed until August-September 2020.

The overall aim of the research was to explore:

- how employers set the pay of apprentices, in absolute and relative terms;
- the impact of the increases in the Apprentice Rate (NMW AR) on pay setting;
- why some employers pay apprentices above the NMW AR but below the age rate; and
- whether training hours influence decisions around pay.

Employers were also asked about the impact of the pandemic on their short- and medium-term apprenticeship recruitment plans.

Methodology

The first stage of the research included a review of existing literature into employer wage setting. The researchers also undertook an analysis of the Apprenticeship Pay Survey 2018/19 (APS 2018/19) in order to further refine the selection of employers for interview. The main element of the research was a series of in-depth interviews with 30 employers. The criteria for selecting employers was based on selecting those which delivered apprenticeships in frameworks/standards where: (a) pay rates were relatively low such that the NMW might have some influence over wage setting; and (b) apprentices in the APS 2018/19 reported rates of pay which appeared to be below the relevant NMW. The frameworks/standards selected for inclusion were: hairdressing; childcare and related; construction; electro-technical; and engineering, manufacturing technologies and related.

Background

The APS 2018/19 found that almost one in five apprentices were paid below the relevant National Minimum Wage (NMW) rate – be this the Apprentice Rate (for first year apprentices and those aged under 19) or the NMW rate for their age (for second year+ apprentices aged 19 and over). This statistic is derived from the answers apprentices gave in the survey and does not necessarily mean they were paid below the statutory minimum in practice.

The factors which influence apprentice wage setting are manifold. Over the past 20 years or so, the age of apprentices and the level of apprenticeships which they are working towards completing have increased. Given that minimum wage levels are age-related this indicates that, in aggregate, apprentice wage rates will have grown. It may also be that local labour market conditions exert some influence on apprentice wage rates. To date the evidence seems to indicate that, for the most part, employers have an excess number of applicants for the apprenticeships they are looking to fill thereby reducing any upward pressure on apprentice wages. But this is not always the case.

At the same time there are constraints, other than regulation, which are likely to influence the wages employers pay apprentices. The net cost to the employer of delivering apprenticeships varies between frameworks. In those apprenticeships where there is less guarantee that the apprentice once trained will remain with the employer, employers need to ensure that the net costs of training at the end of the training period are close to zero. In practice, the productive contribution of the apprentice while training is all-important in ensuring that the net costs are close to zero. Typically in lower-level apprenticeships such as those at Level 2 in customer service much of the training can be undertaken on-the-job such that the productive contribution of the apprentice more or less covers their costs of training. The wage of the apprentice is the largest cost which accrues to the employer in the delivery of the apprenticeship. This contrasts with apprenticeships at higher levels where the net costs at the end of the training period are often substantial with the employer regarding the apprenticeship as a long-term investment which will reap rewards in the years ahead.

Changes to the regulation of apprenticeships (in Spring 2017) set a requirement for 20% of training to be off-the-job. This will have affected the cost-benefit calculations of employers especially those at Level 2 which had previously relied upon training being predominantly on-the-job in order to break even on training.

A logit regression analysis was undertaken to identify the characteristics of apprentices and apprenticeships being paid at the minima, using APS 2018/19 data. The analysis found that Intermediate apprenticeships; younger apprentices (especially those aged 16-18); and female apprentices were all more likely to be paid less than the minima, as were those on childcare, hairdressing, and health, social care and sport frameworks.

Apprentice recruitment, training and wages: Findings from the employer case studies

For most employers recruiting apprentices was a long-standing approach to meeting their skill needs. Almost half of employers recruited apprentices every year and this included all apprenticeship frameworks within scope of the study. Of the remainder, most recruited apprentices as and when they needed them as a result of changes in their workforce (e.g. people leaving) or due to changes in business demand. Employers said they were willing to recruit people at any age, but had a preference for younger recruits, especially those aged 18-20 years old (i.e. not school leavers). The large majority of employers reported high retention rates at the end of the apprenticeship.

Most employers used apprenticeships to meet future workforce needs. Organisations needed to have workers with relevant skills and apprenticeships were a preferred mechanism for ensuring a skills pipeline. Apprenticeships were also thought to contribute to staff retention – those who trained with the employer tended to stay with the employer compared with fully experienced/skilled workers recruited from the external labour market. Apprenticeships also meant that employers could train people in certain ways, for example, in the organisation's values.

Some employers also wanted to provide employment and training opportunities for young people. Others have 'always taken on apprentices' either because apprenticeships were the accepted mode of training within their sector (e.g. childcare) or because the company had 'always' recruited apprentices and this had served their business well.

Employers provided details of their pay levels for each apprenticeship framework and NMW groups. In the first year of their apprenticeship, most groups of apprentices were paid above the NMW age rate, even though employers could have paid these apprentices at the lower

NMW Apprentice Rate (AR). Some employers paid above the NMW AR but at or below the relevant NMW age rate. Those groups in a second or third year of their apprenticeship tended to be paid above the NMW age rate.

If an apprentice was an existing employee, they would continue with the pay they were already receiving. For new apprentice recruits, employers tended to use the NMW framework to determine how much to pay.

Most employers paid the NMW age rate plus a premium. This was because of: the contribution apprentices made to the business; out of 'fairness'; due to market forces (e.g. attracting better quality candidates); and because they followed nationally or organisationally determined pay rates, for example, NHS Trusts.

Across all apprenticeship frameworks there is a progression in apprenticeship pay from the beginning to the end of the programme in part because apprentices move from the NMW AR to the age rate, or from one age rate to a higher one.

In England, apprentices must spend at least 20% of their working hours undertaking occupational off-the-job training. Most employers reported that, on a weekly basis, their apprentices spent between 25-35 hours working and between 6-10 hours in off-the-job training. Engineering and hairdressing were the two apprenticeship framework areas with the highest levels of off-the-job training. Health, social care and sport, and retail reported the least.

Apprentices in the main received blended learning i.e. a range of different provision delivered in different locations, and by different modes and people. This comprised a combination of day release, externally supervised on-the-job training sessions, and distance learning. This was supplemented by internally supervised on-the-job training sessions and statutory training (e.g. first aid).

In most cases employers viewed apprenticeships as making a positive contribution to the workplace (as well as benefitting the apprentice). They performed their jobs well; developed work-related skills; and enhanced the workplace in other regards e.g. bringing new ideas. A minority of employers said that their apprentices were cost-positive either because of their relatively low wages (compared with recruiting experienced workers) or because most of the training was completely or heavily subsidised.

Only a handful of employers said that training costs were not recovered from an apprentice's productive contribution. Therefore, off-the-job training was not considered a cost pressure in most cases because of the contribution apprentices made to the business. Employers were aware that this was a requirement of apprenticeships and so planned for it and accounted for it.

The impact of COVID-19: Findings from the employer case studies

Respondents were asked whether their apprenticeship recruitment plans had been affected by the pandemic. Most employers - six out of ten - said that their plans for this year had not been affected and that they had recruited the number of apprentices they had planned to throughout the year. Those who did report an impact said that their apprenticeship recruitment had been stopped or paused due to the lockdown, and because most staff were working from home.

The impact of COVID-19 on apprenticeship recruitment is much more likely to be felt in 2021, employers said. Around one quarter of respondents said that their recruitment plans were

uncertain for next year. This was because the pandemic would negatively affect their businesses with some saying their businesses were 'fighting for survival'.

Many employers said that their 2021 apprenticeship recruitment plans would not be affected by the pandemic and its aftermath because of the importance of apprenticeship training to their business. However, some employers' plans would be impacted. Business and administration, and hairdressing employers were the most pessimistic about their 2021 apprentice recruitment plans. Adult social care, construction and manufacturing tended to be more optimistic, whilst childcare providers had mixed views.

Evidence of the NMW on apprentice wage setting

In the case of existing staff starting apprenticeships, they would be paid the same wage or salary they would have been paid in their job. For new apprenticeship recruits, the NMW framework serves as a baseline reference point. Some employers pay the minimum rate, but most paid above this. Of these, most decided to pay above the NMW age rate, even though they were entitled to pay the NMW AR.

The main reason why employers decided to pay above the NMW age rate is primarily out of a recognition of the apprentice's contribution to the business. This is a combination of the progress they make in their training (and thereby their ability to undertake higher level and more lucrative work) and the work they undertake during their apprenticeship. In some cases this is a sophisticated assessment of profitability whilst in other cases a judgement is made during formal review processes based on evidence from their supervisor, the training provider, and discussions with the apprentice themselves. In other cases it is based on a sense of what it is 'fair' to pay young people based on their circumstances and for some a sense of Corporate Social Responsibility. Some employers pay above the NMW age rate because of market forces whilst others use industry wide pay guides which themselves take into account NMW pay levels.

This approach is common across most apprenticeship frameworks, apprentice age and levels, and organisations.

In most cases, the wages of qualified workers were not mentioned when discussing apprentice pay setting. To that extent, the relative pay of apprentices is not taken into account. The exception was in those apprenticeship frameworks where qualified staff are likely to be paid the NMW age rate themselves, so some distance needed to be maintained between apprentice pay and that of qualified staff (e.g. in childcare).

Few employers used the NMW AR, because they believed it to be set at too low a level for their apprentices. If it is paid, then it is used for 16-17 year olds and not older apprentices, or in childcare because qualified staff are paid at the NMW age rate. Apprentice pay rates also increase during the term of the apprenticeship so even if an apprentice started on the NMW AR they are more likely to complete at a higher rate.

Apprentice starting pay generally increases above the rate of inflation because minimum wages in the NMW framework increase above inflation. But as the NMW AR has risen slightly more than the NMW age rate in recent years, this will reduce the differential in sectors like childcare where staff are paid the NMW age rate.

As noted above, some employers set pay for apprentices above the NMW AR but below the appropriate age-related rate. This occurred with employers in three apprenticeship framework areas: business and related; childcare; and hairdressing. The rationale varied between

employers. In some cases, employers wanted to start apprentices on a relatively low wage (but not as low as the NMW AR) to see if the apprentice was committed to the job. In one case, the rate was determined nationally with no local-level decision making. Finally, in childcare, employers wanted to pay a little more than the NMW AR but still retain some differential between qualified staff who were paid the NMW.

There was an interest in ascertaining whether training hours influenced decisions around pay and how employers record training hours. Most employers did report that apprentices spent at least 20% of their working hours in off-the-job training, and of the remainder most reported just under this level. However, in keeping with the findings from other studies a number of apprentices did not receive this level of training. Training hours did not influence decisions around pay largely because most employers had run apprenticeships for several years, and the nature and extent of training had been set and had not changed after 2017. This is why the impact of the 2017 reforms had little impact on apprentice pay setting. Where there had been an effect, due to the 20% off-the-job training requirement, this influenced the number of apprenticeship recruits rather than their pay levels.

Employers do not see training as a cost pressure because it is either factored in or because the costs of training are expected to be recovered by the end of the apprenticeship.

The calculation of training hours also depends on definitions of training. In interviews it was apparent that training which could have been included as off-the-job training was not defined as such. In addition, what some employers included as off-the-job training was defined as on-the-job training by others, even though it appeared to be similar.

All but two employers were aware of the complexities of the NMW framework as it applied to apprentices and that the NMW age rate applied to second year apprentices aged 19 and over. Some employers appear to pay below the NMW framework, but this is more likely to be incorrect reporting of the wage rate rather than non-compliance.

Conclusion

The NMW framework provides a baseline point of reference to employers for setting their wages. In the absence of other pay reference points the NMW framework is the only one available. Most employers chose to pay above the minimum rate. Even though they are entitled to pay the NMW AR, they decided instead to pay above the NMW age rate. This additional pay was usually in recognition of the apprentice's contribution to the business (which increases during the term of the apprenticeship), out of a sense of 'fairness' or due to market forces. In a small number of cases, apprentice pay is determined by national sector pay rates.

Apprenticeship recruitment and pay over the past few years appears to have survived various shocks to the programme, including the apprenticeship reforms in Spring 2017 (in England) and the initial impact of COVID-19. However, how apprenticeship recruitment is affected by the ongoing pandemic into 2021 remains to be seen. A number of employers were more pessimistic about apprenticeship recruitment next year as COVID-19 continues to affect business demand.

1. Introduction

The University of Warwick Institute for Employment Research (IER) was commissioned by the Low Pay Commission (LPC) to undertake research into how employers set the pay of apprentices. The research was commissioned prior to the COVID-19 pandemic but the fieldwork has been carried out during it.

1.1. Aims and objectives

The overall aim of the research is to:

- explore the factors that determine how employers set the pay of apprentices, in absolute terms and in relation to other workers;
- assess any impact of the increases in the Apprentice Rate (NMW AR) on pay setting for apprentices;
- investigate why some employers set pay for apprentices to be above the NMW AR but below the appropriate age-related rate, and how these rates are determined;
- explore whether training hours influence decisions around pay and how employers record training hours;
- explore whether employers believe the NMW AR is overly complex and if so, why.

The study is UK-wide and reflects the context and practicalities of devolved apprenticeship policy implementation in the four countries.

The study looks at apprentice wage setting by age group. Not just because the National Minimum Wage (NMW) and National Living Wage (NLW)¹ varies by age, but also because employers' recruitment of apprentices is sometimes influenced by the age of the apprentice (e.g. providing young people with an employment and training opportunity, or upskilling existing employees who tend to be older). The study also takes into consideration level of study, occupation/apprenticeship standard or framework², geography, and gender as far as possible.

1.2. Background

LPC analysis of the Department of Business, Energy and Industrial Strategy's (BEIS) Apprenticeship Pay Survey (APS)³ found that "Large numbers of apprentices continue to be underpaid"⁴. The Apprenticeship Pay Survey 2018/19 found that almost one in five (19%) of Level 2 and Level 3 apprentices were paid below the relevant NMW, about the same proportion as in the previous apprentice pay survey in 2016. The highest rates of non-

¹ In this report we will refer to the NMW to cover all categories of minimum wage including the Apprentice Rate and the NLW, unless we specifically refer to the AR or NLW.

² Apprenticeships frameworks are being phased out and being replaced by Apprenticeship Standards; this process will conclude in the 2020/21 academic year. However, as the APS refers to frameworks we will use this term instead of standards, although at the time of the APS most apprentices would have been following standards.

³ BEIS (January 2020), Apprenticeship Pay Survey 2018/19 – Great Britain: BEIS Research Paper Number 2020/001

⁴ LPC (January 2020), National Minimum Wage: Low Pay Commission Report 2019.

compliance (around one third) were for apprentices aged 19 or older in the second year of their apprenticeship when they should be moved from the NMW AR to the age relevant NMW (see below).

The LPC's 2020 report suggests that one reason for high levels of non-compliance is employers not paying for off-the-job training. Whilst employers may pay the correct hourly rate, they are not paying for the full working week with wages covering time on-the-job but not training off-the-job.

1.2.1. National Minimum Wage rates

The LPC is an independent public body that advises the Government each year on the NMW. The NMW framework⁵ applies to all employees in the United Kingdom and this means that (since 2010) apprentices are also subject to the NMW as they have employed status.

The NMW framework when applied to apprentices has an added tier compared to other employees. The NMW AR applies to all apprentices aged 16-18 for the duration of their apprenticeship. For those 19 years and over, the NMW AR can be used to pay them during the first year of their apprenticeship, but beyond this initial year apprentices should be paid the NMW age rate.

Table 1 shows the NMW framework for 2020/21 which came into force across the United Kingdom on 1st April 2020. In the first year of their apprenticeship an apprentice can be paid the NMW AR. But if they continue their apprenticeship into a second year they would be paid the NMW age rate (e.g. £6.45 for someone aged 18-20 years of age). This is the same as if an apprentice had completed their apprenticeship and carried on in employment and paid the NMW age rate.

Introduced in October 2010 at an hourly rate of £2.50, the NMW AR has risen by 66%. This is higher than the NMW age rates, especially for 16-18 year olds where the increase was 25% over the ten year period.

Table 1: National Minimum Wage framework rates for 2020/21

Age/status	NMW hourly rate	Change 2010/11-2020/21
Apprentice (first year)	£4.15	66%
16 to 17	£4.55	25%
18 to 20	£6.45	31%
21 to 24	£8.20	38%
25 and over (National Living Wage)	£8.72	47%

Source: Low Pay Commission (April 2020), The National Minimum Wage in 2020: Up-rating Report.

1.2.2. Apprenticeships in the United Kingdom

An apprenticeship is a programme of training that combines hands-on work with off-the-job training. In the UK, apprenticeships are a devolved responsibility and because of this

⁵ The NMW framework is the collective name for all of the apprenticeship and age related minimum wage rates.

apprenticeship programmes vary across the four nations. In general apprenticeships are available to both new recruits or existing employees, require apprentices to hold a contract of employment, are predominantly available to full-time employees, involve a proportion of time spent in off-the-job training, and are available at different levels. There are differences between the countries in funding, content, assessment, accreditation and eligibility.

Apprentices are paid a wage and levels of pay must conform to the NMW framework and cover hours spent working and hours in off-the-job training. Off-the-job training covers technical and transferable (but not functional) skills and can include provision at an off-/on-site training centre, but can also include e-learning, mentoring and work shadowing. In England, 20% off-the-job training is a statutory requirement, but this amount is not a condition in Northern Ireland, Scotland and Wales.

1.3. Methodology

1.3.1. Literature review and data analysis

The first stage of the research included a review of existing literature into employer wage setting in general, and apprentice pay setting in particular. The researchers also undertook an analysis of the APS 2018/19 in order to identify the main factors underpinning being paid less than the respective minima, and provide a sampling framework for a survey of employers.

1.3.2. Survey of employers

Analysis of the APS 2018/19 is included in Section 2.6. This shows that levels of non-compliance with the NMW framework rates are highest for 16-17 year olds, and those aged 18+ in the second year of their apprenticeship. Rates of non-compliance are also highest in five apprenticeship frameworks: hairdressing; childcare and related; construction; electrotechnical; and engineering, manufacturing technologies and related.

According to the APS 2018/19, levels of minima pay are similar in England and Scotland (24% and 22% respectively) but lower in Wales (16%) (Northern Ireland was not included in the survey). In all three countries, levels of minima pay are highest for 16-18 year olds, and all other age groups in their second year.

Above average levels of minima pay are similar in England and Wales (childcare and related, construction, engineering, and hairdressing) but in Scotland they are concentrated in engineering, hairdressing, and health and social care (this includes childcare and related in Scotland). hairdressing has the highest levels of minima pay across all three countries.

These findings influenced the sample structure which focused on apprenticeship frameworks and age groups where levels of non-compliance were highest (see below).

In-depth interviews were undertaken with employers, across the UK, using a semi-structured interview schedule (see Annex A). Originally, the interviews were planned for April-May 2020, but because of the pandemic and the subsequent lockdown interviewing was delayed until August-September 2020 due to the difficulties in contacting employers. The original intention had been to conduct the interviews in person, but again due to the pandemic the interviews had to be conducted by telephone.

Employer contacts were obtained from an employer survey conducted by IER in May/June 2017 which provided details of employer apprentices by broad apprenticeship framework, age and Level. This survey involved interviews with 200 employers, 148 of whom agreed to take part in further research interviews and provided their contact details. This survey only applied

to England and thus the employer sample for Northern Ireland, Scotland and Wales was drawn from employers on apprentice recruitment and review websites.

Based on the analysis of the APS 2018/19 and in discussion with LPC it was decided that the focus of the study should be on those areas where non-compliance with the various NMW framework rates was greatest: 16-18 year olds on the NMW AR; apprenticeships at Levels 2 and 3; and older age groups in the second year of their apprenticeship, especially 19-24 year olds. Based on these criteria a sample structure was developed (see Table 2).

Table 2: Employer selection by framework, age of apprentice, and nation

Apprenticeship framework	No.	Country	No.	Age group	No.
Business, administration and law	6	England	21	16-18	16
Construction	7	Northern Ireland	2	19-24	11
Health, public services and care	10	Scotland	4	25+	3
Retail and commercial enterprise	7	Wales	3	Total	30
Total	30	Total	30		

Source: Warwick IER

A semi-structured interview schedule was drafted covering all of the main research questions: background information on the employer; how they set apprentice wages; apprenticeship training; and reasons for taking on apprentices (the semi-structured interview schedule is reproduced in Annex 1). A short section was added at the end which asks employers about the impact of COVID-19 on their apprenticeship plans for 2020 and 2021.

1.4. Structure of the report

Section 2 provides a review of the literature relevant to the setting of apprentices' wages. It also contains the analytical framework which was used to frame the data collection and subsequent examination of the evidence. Section 3 reports on the findings from the in-depth interviews with employers. It explores the factors which determined their setting of apprentice wages with particular reference to the various NMW framework rates. Finally in Section 4, the conclusions from the study are presented along with recommendations relating to the setting of the NMW framework for apprentices.

2. Literature review and data analysis

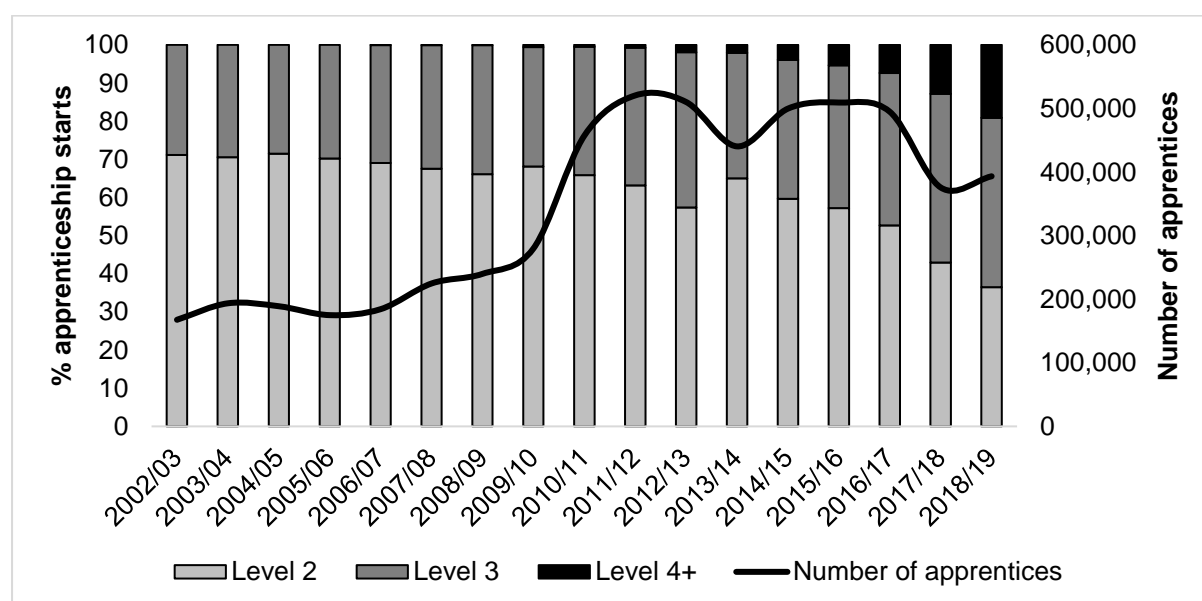
2.1. Introduction

Before providing findings from the interviews with employers which explored the factors which determined the wages they paid their apprentices, this section looks at what is already known about wage setting in relation to apprenticeships. Evidence is provided from a range of studies about the role wages play in the employer's rationale with respect to whether to take on apprentices, alongside that from the APS 2019. The review of the literature and the APS is then used to construct the conceptual framework for the fieldwork analysis provided in Section 3.

2.2. Trends in apprenticeship starts

Successive governments have sought to increase the number of apprentices. Figure 1 shows that there has an upward trend over the past fifteen years or so which then dipped after the introduction of the Apprenticeship Levy in 2017. It is apparent that the higher level apprenticeships (those at Levels 4+) have accounted for an increasing share of apprenticeships (i.e. apprenticeships which are relatively expensive for employers to deliver).

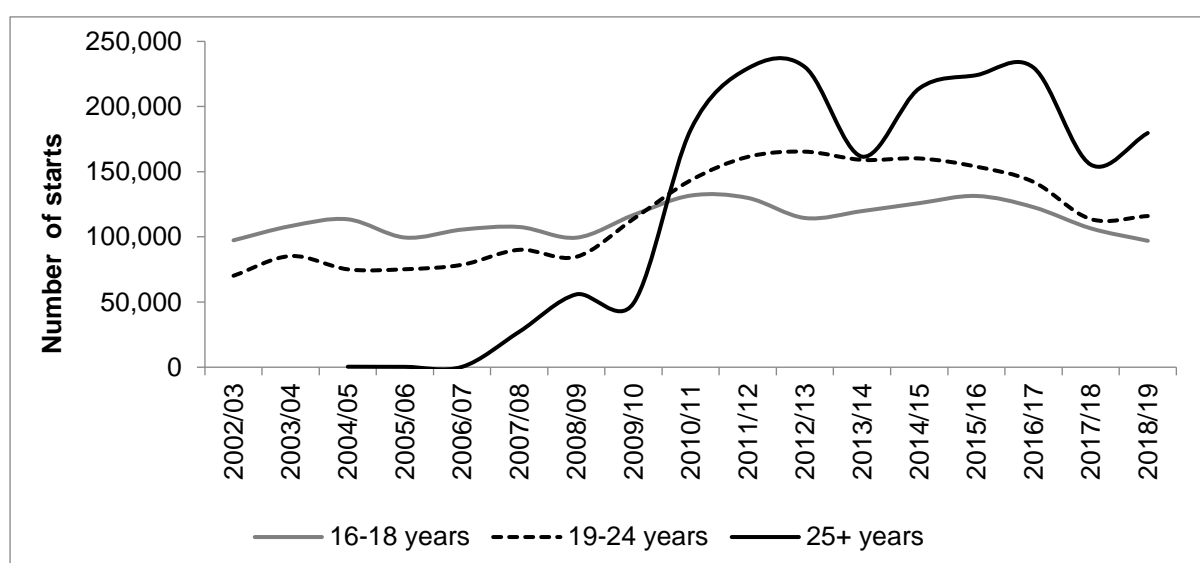
Figure 1: Apprenticeship starts by level 2002-2019



Source: DfE Apprenticeship Programme Starts by Age, Gender and Level

Figure 2 shows the age profile of apprenticeships has changed too with those aged 25 years and over increasingly accounting for a higher share of all apprenticeships (which has implications for their wage levels given the age-related nature of the NMW framework).

Figure 2: Apprenticeship starts by age-groups 2002-2019



Source: DfE Apprenticeship Programme Starts by Age, Gender and Level

A further factor which will affect wage setting for apprentices – and which is related to the increasing number of apprentices aged 25 and over – is the share who are existing employees of an organisation before they are placed on an apprenticeship. This is sometimes related to employers looking to retrain/upskill their existing workers. In 2018/19, 36% of employers provided apprenticeships to their existing staff, up from 32% in 2017. And 31% in 2018/19 provided them only to existing staff compared with the 27% in 2017 (IFF Research, 2020). In most cases, the wage level of these apprentices is likely to have been determined by their prior employment and the processes in place for establishing it.

2.3. Factors determining organisation wage setting

There are a number of factors which determine company wage setting: organisational philosophy and culture; ensuring that the benefits of training exceed the costs (over varying timescales); past behaviours; and external factors (such as regulation and wider business and labour market conditions). Very few studies, however, focus specifically on apprentice wage setting.

Analysis that has focused specifically on apprenticeships suggests that three factors determine how employers set apprentices' wages:

1. cost (employer expenditure on training include wage costs);
2. regulation affecting the costs of an apprenticeship (e.g. the Levy, training standards, etc.) and the wage of apprenticeships (the appropriate NMW framework rate, collective agreements, etc.); and
3. conditions in the external labour market (i.e. the supply of would-be apprentices).

As will be explained below, there is a relative abundance of data on the costs to the employer of delivering an apprenticeship and how this affects the propensity of the employer to take on apprentices (e.g. Gambin and Hogarth, 2017; Mohrenweiser and Zwick, 2008; Wolter and Ryan, 2011). There are also substantial data on the extent of the regulatory aspects of wage setting (i.e. the percentage of employers complying with the NMW framework) (LPC, 2020; BEIS, 2020). Where the evidence is much weaker is in relation to how employers decide on

the actual wage including both the process for establishing the apprentice's wage and the actual amount decided upon. This requires all three factors mentioned above to be taken into consideration simultaneously.

2.3.1. Costs

Much has been written on the costs of an apprenticeship. This has tended to focus upon:

- estimating the cost of the various individual elements of the apprenticeship (e.g. wage costs of apprentices and those who train them, costs of training materials, etc.);
- how potential costs are offset to reduce the net costs at the end of the training period and how training costs can be recouped after completion of the apprenticeship; and
- observed differences between (a) characteristics of employers training apprentices and; (b) the occupation to which the apprenticeship is attached.

There is a general view that employers, other things being equal, need to be able to recoup the costs of the training by the end of the apprenticeship training period since there will be limited opportunities to do so post-training. In practice, the evidence suggests that employers are able to extract a rent from their apprenticeship training after its completion but this tends to vary by type of apprenticeship (Göggel and Zwick, 2012). Those apprenticeships which are considered to deliver relatively low level skills are thought to be most sensitive to ensuring costs are recouped by the end of the training period (Acemoglu and Pischke, 1998; Gambin et al., 2010; Lerman, 2019). This is because the skills conferred on the apprentice are inherently transferable to other employers since they are acquired over a relatively short-space of time such that any employer specific elements of doing the job which might be expected to result from a longer apprenticeship are not as much in evidence. If there is a net cost, or substantial net cost at the end of the training period, then the employer might be able to recoup that expenditure or appropriate the returns from the apprenticeship if the former apprentice leaves their employment.

Table 3 shows the wage costs of relatively low and high cost apprenticeships⁶. It shows that in the case of the former, wages account for a relatively high share of the overall costs of an apprenticeship. In the example shown, wages account for 76% of the overall cost of an apprenticeship in customer care (at Level 2). The productive contribution of the apprentice whilst training exceeds the wage such that much of the cost of the apprenticeship is paid for given that the productive contribution of the apprentice, after induction training, is relatively high compared with the wage of the fully-skilled work (i.e. it approaches 100%, often because it is existing workers who are being trained via the apprenticeship). This can be contrasted with the situation in an engineering apprenticeship at Level 3. In the first year of a typical three- to four-year apprenticeship, wages account for around 60% of the overall cost of the apprenticeship and the productive contribution of the apprentice meets 54% of the overall first year costs. The productive contribution of the apprentice in the first year is considered to be 28% that of the fully experienced worker, which rises to 78% in the final year of the

⁶ The net cost of an apprenticeship takes into account the main costs (i.e. the apprentice's wage, management and supervision, training costs) and benefits (predominantly their productivity) during the period of the apprenticeship, and how long it takes post-apprenticeship for employers to recoup any net costs. Construction, engineering, and financial services are examples of high cost apprenticeship frameworks and business administration, hospitality, social care, and transport and logistics are low cost. Apprenticeships at Level 2 are lower cost than at Level 3. See Hogarth T, et al (May 2012).

apprenticeship. The implication of the above is that the apprentice's wage costs are a more substantial component of overall costs in lower level apprenticeships than in higher level ones.

Table 3: Apprentices labour costs

	Wage costs (%)	Productive contribution (%)	Total cost to employer (£)
Customer Care (Total)	76	82	£14,633
Engineering (Year 1)	50	28	£22,747
Engineering (Total)	61	54	£79,348

Source: Gambin and Hogarth (2017)

Employers have a degree of choice with respect to how they structure and cost apprenticeship delivery. Typically by increasing the productive contribution of the apprentice whilst training, the overall cost of the apprenticeship can be reduced. In practice, this is the only income most employers have from delivering an apprenticeship. But as can be seen in the example above, in the relatively low cost apprenticeship there is little or no scope to increase the productive contribution as it is nearly 100% from the beginning of the training.

2.3.2. Regulation

The four principal regulatory factors which are likely to have some bearing on the costs of delivering an apprenticeship are:

1. the Apprenticeship Levy which is designed to increase the number of apprentices (and increase the overall share of apprenticeship costs met by the employer);
2. the requirement in apprenticeship standards for 20% of training to be off-the-job which implies that for that period of time the productive contribution of the apprentice will be zero (though it may improve their productive contribution thereafter);
3. the NMW age rates/AR and apprentice status which at the very least sets a floor for apprentice wages. The evidence points to the NMW framework acting as anchor in many instances (Low Pay Commission, 2020);⁷
4. existing wage agreements which have some bearing on the wage of apprentices (relative to fully experienced workers).

Of interest is the way in which employers structure the costs of delivering an apprenticeship to comply with the regulations. Employers have a degree of flexibility with respect to how they balance wage costs with other elements of the apprenticeship (e.g. time spent away from the shop floor for training). How this works out in practice is likely to have some bearing on the wage rate paid to the apprentice and what is included in paid employment and what is not.

⁷ The LPC report points to the apprentice rate being the main driver for the pay of 16-18 year old apprentices (para 6.28) and for older apprentices. Employers take advantage of the lower pay floor in the first year of the apprenticeship to set wages under the age-related NMW rates (para 6.29).

2.3.3. External labour market conditions

A final consideration is the wage required to recruit and retain apprentices. It is often the case that the demand for an apprenticeship (from learners) exceeds their supply (from employers). But this is not always the case. There are likely to be segments of the apprenticeship market where supply exceeds demand – this may vary by apprenticeship standard, level, or local labour market area. This is likely to vary by sector and it may be in certain cases that employers have a degree of monopsony power in a local labour market when it comes to the supply of certain kinds of apprenticeships. External labour market conditions also apply to the occupation for which apprentices are training. Employers may also undertake apprenticeship training as a short- or medium term response to labour and skill shortages of qualified employees rather than apprentice demand and supply per se.

2.4. Compliance with the NMW framework 2018/19

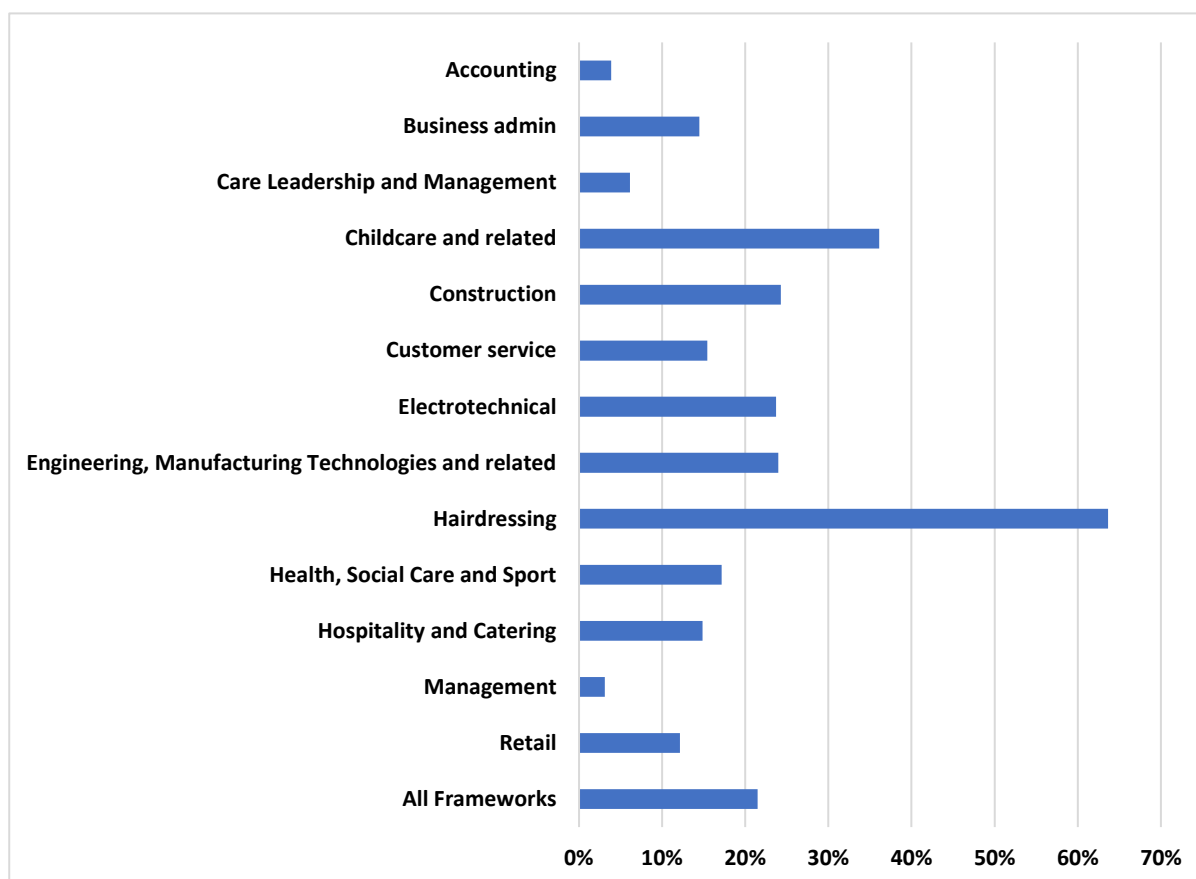
The APS 2018/19⁸ provides data on compliance and non-compliance with the NMW AR (for all 16-18 year olds and all first year apprentices), and the respective NMW age rates which applies to all apprentices aged over 18 and in the second year of their apprenticeships. The level of non-compliance is used as a proxy for the setting of a relatively low pay rate, be that at or below the age minima or the NMW AR.

Analysis of the APS shows that levels at or below the minima (referred to hereafter as minima pay) vary by age and apprenticeship framework⁹. Figure 3 shows rates of minima pay by apprenticeship framework and the relevant age minima. Overall, rates of minima pay are 21%.

⁸ BEIS (January 2020) op. cit.

⁹ The APS 2018/19 sample was a purposive not a representative sample. It does not provide a representative picture of take-up by apprenticeship framework. The APS 2018/19 does not include Northern Ireland.

Figure 3: Levels of minima pay by apprenticeship framework¹⁰



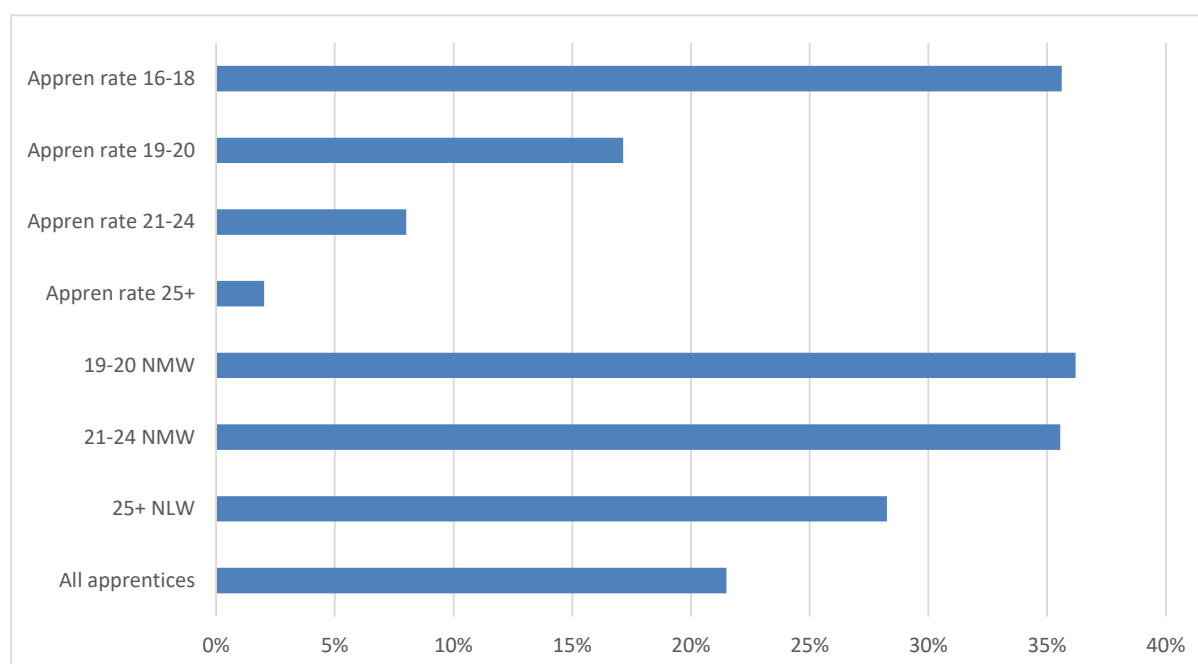
Source: Warwick IER analysis of APS 2018/19

There are five apprenticeship frameworks with levels of **minima pay** greater than average: hairdressing (64%); childcare and related (36%); construction (24%); electrotechnical (24%); and engineering, manufacturing technologies and related (24%).

Across all apprenticeship frameworks there are four groups of apprentices who are likely to be receive **minima pay**: 16-18 year olds (36% of apprentices are paid below the relevant minima); 19-20 year olds beyond their first year (37%); 21-24 year olds beyond their first year (36%); and those aged 25+ beyond their first year (28%) (see Figure 4). Therefore first year apprentices aged 19+ are the least likely to be paid below the relevant minima.

¹⁰ Apprenticeship frameworks differ between the Great Britain countries and for reasons of simplification these have been combined where similar. For example, childcare and related combines APS data for the children's learning and development and well-being framework in England and Wales, and the children's care learning and development framework in Scotland.

Figure 4: Levels of minima pay by age-group and respective minima

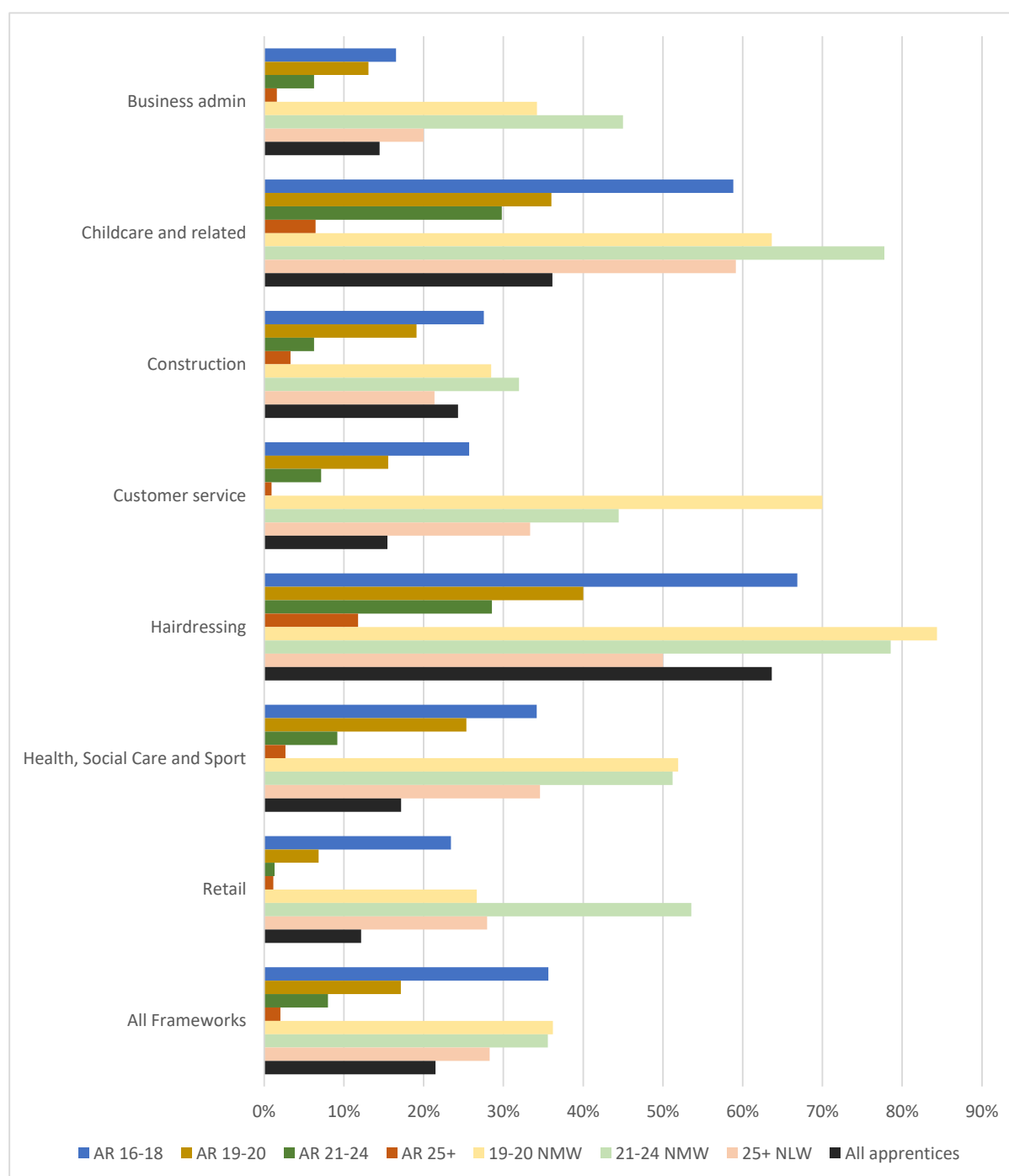


Source: Warwick IER analysis of APS 2018/19

Within apprenticeship frameworks, 16-18 year olds are more likely than average to receive **minima pay** in seven of the 16 apprenticeship frameworks. However, it is 19-20 (11 of the 16 frameworks), 21-24 (10) and 25+ year olds (8) in the second year of their apprentice who are more likely receive **minima pay**.

Combining the data on NMW framework non-compliance for both apprenticeship frameworks and age minima provides the key dimensions for the employer survey sample structure and is shown in Figure 5. All of these apprenticeship frameworks recruit amongst the largest numbers of apprentices across the four UK countries (see Figure 6).

Figure 5: Levels of minima pay by age group, respective minima and framework



Source: Warwick IER analysis of APS 2018/19

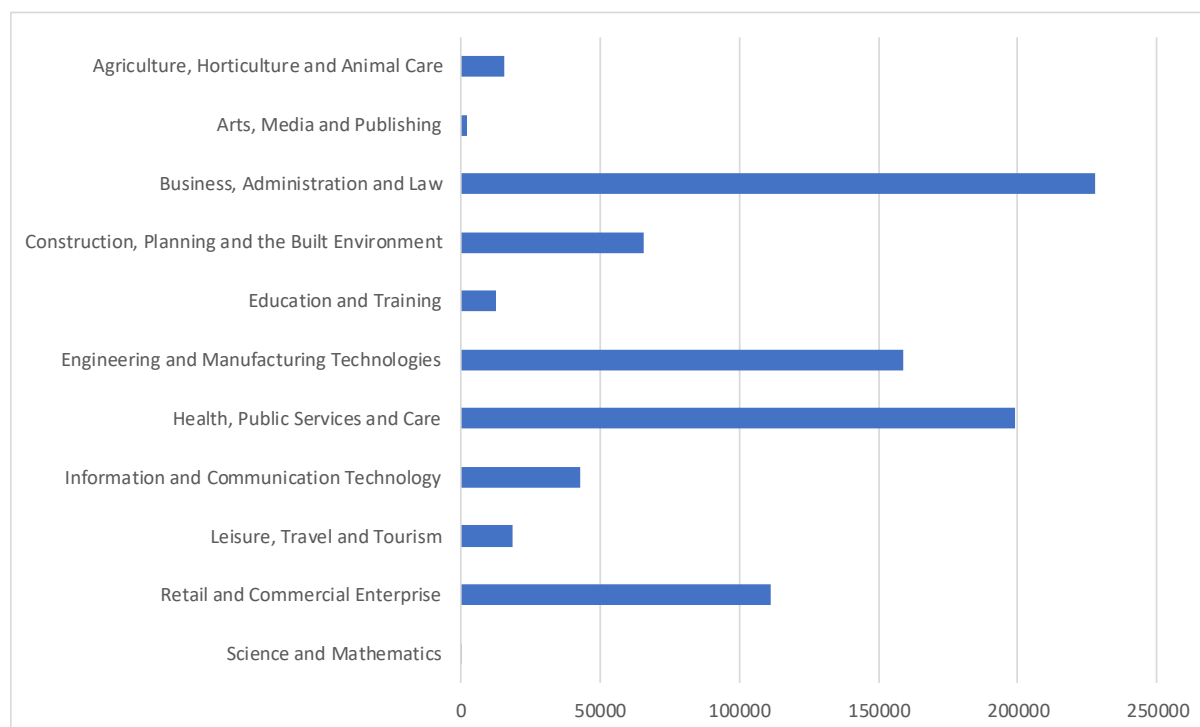
2.5. Apprentices by framework

Accessing standardised data on apprenticeship starts by apprenticeship framework across the four UK countries is difficult. Not all sources use the same apprenticeship framework definitions, some countries use participants rather than starts, and some present data for financial rather than academic year.

Figure 6 therefore is a compromise and provides a best attempt profile of UK apprenticeship starts in 2018/19. In 2018/19 there were just over 850,000 apprenticeship starts across the UK. Nine out of ten were in England (89%), 7% in Scotland, 3% in Wales and 1% in Northern

Ireland. Five apprenticeship frameworks – business, administration and law (27%), health public services and care (23%), engineering and manufacturing technologies (19%), retail and commercial enterprise (13%), and construction (8%) – accounted for nine out of ten (89%) of all apprentices.

Figure 6: UK apprenticeship starts by framework 2018/19



Source: Warwick IER analysis of the following data sources: [England](#); [Northern Ireland](#); [Scotland](#); and [Wales](#)

The largest UK apprenticeship frameworks cover those frameworks where there is a high level of NMW framework **minima pay** within particular age groups (in particular 19+ apprentices in their second year):

- Business administration;
- Health, social care and sport (including childcare); and
- Retail and commercial enterprise (which includes hairdressing).

Reflecting upon the apprenticeship frameworks which pay the minima it is apparent that they are all, for the most part, ones which are relatively low cost ones (i.e. they are ones where the employer typically looks to cover the costs of the apprenticeship over its duration and soon thereafter). Employers here are more sensitive to wage costs than in other sectors as the chances of appropriating the return on the apprenticeship investment is less than in other sectors where the apprenticeship is more likely to be regarded as an investment in the future of the organisation.

2.6. Multivariate analysis of the APS 2018/19

A logit regression analysis was undertaken to identify the characteristics of the apprentices – and the apprenticeships they were undertaking who were paid the minima. The logit regression model estimates the apprentices' characteristics that make them more/less likely to be paid less than they would otherwise be entitled to under the NMW age rates. Specifically, we estimate a logit regression can be expressed as follows:

$$\begin{aligned}
Y_i = & \beta_0 + \beta_1 level_i + \beta_2 male_i + \beta_3 agebands_i + \beta_4 timeoncourse_i + \beta_5 weeks_contracted_i \\
& + \beta_6 contract_i + \beta_7 constant_payment_i + \beta_8 free_accommodation_i \\
& + \beta_9 min_paid_knowledge_i + \beta_{10} ethnicity_i + \beta_{11} courseframework_i \\
& + \beta_{12} Country_i + \varepsilon
\end{aligned}$$

The variables are as follows:

- Y_i is a dummy variable that takes the value of one when the apprentice is being paid less than they would otherwise be entitled to under the NMW age rates and zero otherwise;
- *level* is a set of three dummy variables which indicates the level of the apprenticeship (Level 2, Level 3 and Level 4+);
- *male* takes the value of one when the apprentice is a male and zero otherwise.
- *agebands* is a set of three dummy variables to indicate if the person is aged between 16 and 18 years old, 19 and 24 years old, or 25 years old and over;
- *timeoncourse* takes the value of 1 if the length of time on course (at time of interview/payslip) is a year or less;
- *weeks_contracted* represents the number of weeks contracted to work per year;
- *constant_payment* takes the value one if the apprentice is paid same amount each week;
- *free_accommodation* indicates if the apprentice is provided with free accommodation by the employer (which might be interpreted as additional income);
- *min_paid_knowledge* is a dummy variable that takes the value of one when apprentice knows about the minimum hourly rate for apprentices and zero otherwise;
- *ethnicity* indicates if the apprentice is white English/Welsh/Scottish/Northern Irish;
- *course framework*¹¹ and *country*¹² are framework and country dummy variables.

The results in Table 4 and Table 5 reveal the marginal effects of each independent variable on the likelihood of being paid less than the minimum according to the apprentices' age. The level of framework is important: the higher the level of framework the less chance this apprentice will be paid below the minima.¹³ Apprentices on **Level 2 courses** were more likely than people in Level 3 to be paid less than the minimum wage by four percentage points. **Younger apprentices** had a higher likelihood to be paid less than the minima.¹⁴ Specifically, people aged between **16 and 18 years old** are 20 percentage points more likely than people aged 24 plus to be paid less than the minima, while for people aged between 19 and 24 years old this difference is 9.1 percentage points compared with the reference group (people aged

¹¹ Business and related; children's learning and development; construction and related; customer service; electrotechnical; engineering manufacturing technologies; hairdressing; health, social care and sport; hospitality and catering; management; retail; other 2/3; accounting; care leadership; business and administration; construction; hospitality management and other; social services; information advice and guidance; children's care learning and development; other 4/5.

¹² England, Wales, and Scotland. Northern Ireland is not included in the APS data.

¹³ The reference group is apprentices in Level 3.

¹⁴ The reference group is people aged over 24 years old.

24 plus). Men were 5 percentage points less likely than **women** to be paid less than the minima.

Table 4: Likelihood of being paid below the NMW framework minimum – demographic characteristics

Variable	Co-efficient
	Being paid less than the minimum
Level 2	0.0428***
	(0.0123)
Higher than Level 3	-0.123***
	(0.0217)
Male	-0.0503***
	(0.0133)
Wales	0.00436
	(0.0129)
Scotland	-0.0563***
	(0.0140)
Between 16 and 18 years old	0.206***
	(0.0165)
Between 19 and 24 years old	0.0915***
	(0.0130)
Time on course	0.0643***
	(0.0118)
Employed on a contract	-0.0789***
	(0.0176)
Number of weeks contracted	0.00506*
	(0.00291)
Obtain same pay each week	-0.00226
	(0.0111)
Free accommodation	-0.122***
	(0.0375)
Minimum rate knowledge	0.0406***
	(0.0122)
White English/Welsh/Scottish/Northern Irish	-0.0379**
	(0.0180)
<i>Standard errors in parentheses</i>	
*** $p < 0.01$, ** $p < 0.05$	

Warwick IER analysis of APS 2018/19

Table 5 shows that apprentices on three apprenticeship frameworks – childcare, hairdressing, and health, social care and sport – are more likely to be paid below than the minima, while those working towards completion of a management apprenticeship are more likely to be paid above the minima.

Table 5: Likelihood of being paid below the NMW framework minimum – frameworks

Variable	Co-efficient
Business and related	-0.0215 (0.0230)
Childcare	0.269*** (0.0278)
Construction	0.0193 (0.0191)
Management	-0.137*** (0.0284)
Other	0.0423* (0.0226)
Customer service	0.0106 (0.0292)
Electrotechnical	-0.0140 (0.0259)
Hairdressing	0.307*** (0.0284)
Health, social care and sport	0.106*** (0.0222)
Hospitality and catering	0.0193 (0.0274)
Retail	-0.00366 (0.0255)
Accounting	-0.0904* (0.0501)
Social services	0.102 (0.0690)
Observations	7,633
<i>Standard errors in parentheses</i>	
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$	

Warwick IER analysis of APS 2018/19

2.7. Conclusion: conceptual framework for analysing apprentice pay

The above provides an overview of apprentice pay and the factors which determine it. In exploring these issues further there are a number of factors which need to be considered:

- the nature of the process of wage setting in the workplace;
- the characteristics of the apprenticeship being undertaken;
- external labour market conditions; and
- regulation.

From the evidence provided in this section it is evident that all of the above have some bearing on setting apprentice pay.

The process of wage-setting needs to consider:

- the extent to which apprentice wage setting is an informal process (i.e. paying apprentices the same as last year, plus an amount which reflects the rate of inflation, **or paying what is loosely referred to as the going rate);
- the use of explicit apprenticeship rates (e.g. where apprentices wages are set against the going rate for the fully experienced worker regardless of any formal wage negotiation or wage setting);
- whether apprentice pay rates are subject to a formal process where the decision results from wage negotiations or wage reviews in the workplace where the apprentice wage might be pegged to that of fully experienced workers.

The deliberations within the wage setting process are likely to reflect the characteristics of the apprenticeship where relatively high costs ones (i.e. those where employers are likely to carry over a net cost at the end of apprenticeship and therefore need to retain the apprentice to recoup their costs) may be less sensitive to wage costs compared with those where the employer needs to recoup the costs by the end of apprenticeship. External labour market conditions are also a factor here insofar where there is an excess demand from employers to take on available would-be apprentices will tend to push up apprentice wage rates. This is likely to be further conditioned by whether the apprentice is taken on as an apprentice, or is an existing employee who is placed on an apprenticeship training programme. Finally regulation will affect wage rates insofar as it affects the overall cost of delivering the apprenticeship. This may place a downward pressure on wage rates, other things being equal, as employers look to contain the overall costs of delivering an apprenticeship. It is known, however, that employers are sometimes reluctant to make cost savings by reducing apprentice wage rates (Hogarth et al., 2014).

The next section reports on the fieldwork with employers and explores the issues set out above in greater detail.

3. Findings from the employer case studies

3.1. Introduction

This section reports on the in-depth qualitative survey of 31 apprentice employers. The sample concentrated on those apprenticeship frameworks, Levels, apprentice age groups and length of apprenticeships where NMW framework non-compliance was highest (see Sections 2.4 and 2.6).

Interviews were originally planned for April/May 2020, and undertaken face-to-face and by telephone. However, the arrival of COVID-19 meant that the fieldwork was delayed by four months and all of the interviews were undertaken by telephone.

Interviews with employers covered: the background and context of the business (size, sector, primary markets); apprenticeship recruitment policies, approaches and practicalities; apprentice wage rates and how they are set and increase over time; time undertaking off- and on-the-job training and what this entails; awareness of the NMW framework and rates; and the impact of COVID-19. The interviews also explored whether the apprenticeship reforms introduced in 2017¹⁵ had impacted on apprenticeship recruitment and pay setting.

3.2. Employer apprentice profile

Table 6 shows the main sector of employers using a typology based on their broad framework area and the broad industrial sector they operated in, as well as the country they were based.

In all, 31 employers were interviewed of which the largest number delivered health, public services and care apprenticeships (mostly childcare and adult social care), just one quarter delivered construction apprenticeship frameworks, and one in five retail and commercial enterprise apprenticeships (most of these were hairdressers). Six employers were levy payers. Most employers were based in England.

Table 6: Apprenticeship employers by framework and country

Sector	No. of employers	Country	No. of employers
Business, administration and law	3	England	27
Construction	7	Scotland	2
Health, public services and care	13	Wales	2
Manufacturing	2	Total	31
Retail and commercial enterprise	6		
Total	31		

Source: Warwick IER employer survey 2020

Together these 31 employers provided apprenticeships for 227 apprentices across 76 apprenticeship frameworks (only Level 2 and Level 3 apprentices have been counted) as

¹⁵ In Spring 2017 a number of reforms to the apprenticeship programme were introduced. Many applied to the whole of the UK but some just applied in England. The most notable were: the introduction of the apprenticeship levy (UK); and the stipulation of a minimum of 20% off-the-job training (England).

Table 7 shows. There was a spread of apprenticeship frameworks across those which had high rates of non-compliance as one would expect given the focus of the sampling. Most apprentices were undertaking business and related apprenticeships. These apprenticeships were delivered across a number of different sectors, unlike the other apprenticeship framework areas which tended to be delivered in just one sector. A large number of apprentices were undertaking engineering apprenticeships, but this is because of one large recruiter. Most apprentices were aged 18-20 and undertaking Level 3 apprenticeships.

Table 7: Apprentices by framework, age group and level

Apprenticeship frameworks			
Framework	No.	Age-group	No.
Business and related	16	16-17	19
Children's care	11	18-20	28
Construction and related	11	21-24	10
Engineering and manufacturing technologies	14	25+	19
Hairdressing	7	Level	No.
Health, social care and sport	12	Level 2	32
Retail	5	Level 3	44
Total Frameworks	76	Total Frameworks	76
Apprentices			
Framework	No.	Age-group	No.
Business and related	92	16-17	30
Childcare	17	18-20	73
Construction and related	16	21-24	24
Engineering and manufacturing technologies	52	25+	100
Hairdressing	11	Level	No.
Health, social care and sport	34	Level 2	77
Retail	5	Level 3	150
Total apprentices	227	Total apprentices	227

Source: Warwick IER employer survey 2020

3.2.1. Apprenticeship recruitment

Almost half of employers recruited apprentices every year, and this included all apprenticeship frameworks. One of these employers said they did recruit annually, but this year was an exception due to the pandemic. Of the remainder, most recruited apprentices as and when they needed them as a result of changes in their workforce (e.g. people leaving) or due to business demand. A smaller number recruited apprentices in batches. This meant that they recruited regularly, but not annually, as some apprenticeships lasted for more than one year. For example, an employer might take on three apprentices on two-year apprenticeships, and when they had completed recruit some more creating a rolling programme of apprenticeship recruitment. Combining these employers with those who recruited apprentices annually means that over two thirds of employers in the sample always employed apprentices.

The sample was deliberately skewed towards those apprentices and apprenticeships where there was highest non-compliance with the NMW framework. This meant that most employers in the sample recruited young people as apprentices. However, when asked if they had a preference for apprentices from any age group the large majority of employers said they did not. Most respondents said that they recruited the best candidate.

Even though employers said they had an open recruitment policy, most did admit a preference for younger recruits (i.e. those aged 16-24). Employers recruiting Level 2 apprentices would recruit from the 16-24 age range whereas those recruiting Level 3 apprentices preferred those aged 18-24. Within this they preferred to recruit 18-20 years olds rather than school leavers. Younger people aged 18+ were seen as having a bit more maturity and 'common sense'. The preference for younger people was due to a range of factors including: perceived higher levels of motivation; not having preconceived ideas or 'bad habits'; and higher retention rates once they have qualified. Past experiences (good and bad of both younger and older apprentices) were also important. A large number of employers have had very positive experiences of apprentices and so an 'if it ain't broke don't fix it' mentality prevailed. Or employers had learnt from the past, e.g. when recruiting school leavers and finding they needed more support and supervision or lacked essential employability skills.

Where employers did end up recruiting younger people this was, in some cases, due to structural factors. For example, some employers recruited apprentices from training providers and so were dependent on those people the provider presented to them. Other respondents did have open recruitment processes (e.g. advertising via online apprentice recruitment sites) but it was mostly young people who applied.

A number of employers recruited apprentices from existing employees and by default these would tend to be older. This was mostly in larger organisations who were also levy payers. Some employers, such as a local authority and a NHS Trust, recruited large numbers of apprentices in a range of apprenticeship frameworks and so would recruit apprentices of varying age groups, some new recruits and some existing employees.

A small number of employers would employ new recruits and have them serve a probationary period. This was to see if the new employees were content working in the sector and also if the employer were satisfied with their performance. After serving this probationary period they would then be invited on to the apprenticeship. In most cases the apprentice would receive the same wage pre- and post-probation, but some employers did pay them a bit more after the probationary period had been served.

Whether it is the recruitment process or apprentices' and employers' experiences during the apprenticeship, the large majority of employers reported very high retention rates, i.e. giving permanent employment contracts to apprentices after they had completed. Just under half of employers said that they retained all of their apprentices, whilst a further third said that they would retain over 75% of them. Of the remainder all but one would expect to keep around half of their apprentices, and these were mainly in childcare and hairdressing frameworks.

The responses of employers shows that for most, apprenticeship recruitment was a long-standing approach and a default option in terms of addressing their present and future workforce needs. This suggests that other aspects of apprenticeships – recruitment mechanisms, approaches to pay setting and on- and off-the-job training – are also well established and continue from year to year as long as they are working.

3.2.2. Reasons for employing apprentices

Respondents were asked why their organisation recruits and trains apprentices. There were several main responses and organisations tended to mention more than one of these, so there were interrelated factors influencing employers' reasons for choosing apprenticeships.

By far the most frequent response was in order to **meet future workforce needs**. This reason was provided by most of respondents covering all of the broad frameworks. There were several dimensions to this:

- **Future workforce and skills planning.** Employers said that they needed to have workers with relevant skills and apprenticeships were a preferred mechanism for doing this to ensure a pipeline of skills emerging in the future. These organisations treated apprenticeships as a longer term investment. In some cases, Level 2 or 3 apprenticeships were viewed as the first steps on a progression ladder to higher level apprenticeships. This could include recruiting people on to a Level 2 apprenticeship with the intention that they then go on to higher levels of apprenticeships in the future at Level 3 (in the case of a childcare provider) or higher (in the case of an accountancy firm). Other employers mentioned failed attempts to recruit skilled workers externally, either because people did not have the relevant skills and experience, or because people did not want to come and work in their sector (e.g. engineering) or for a smaller organisation:

"It's to train the staff of the future. It's mainly on the civil engineering and construction and the built environment side. We look to train them from Level 3 through to Levels 6/7 if we can. We don't train Level 2s. The precise number is a dialogue within the different groups in the business, looking at the individual needs of each sector. Also, there are some of our contracts which stipulate that we need to have a certain number of apprentices." (Construction business, levy payer).

- **Addressing staff turnover.** Some respondents said that apprenticeships were a good way of reducing staff turnover because apprentices would tend to stay with that organisation after completing. Taking on and training people was an effective way of gaining staff loyalty. Other employers said that there were relatively high levels of turnover in their sector (for example, childcare) and so they needed a steady supply of apprentices to replace older staff as they left. Some smaller employers took on relatively large numbers of apprentices (as a proportion of their workforce) because they had high levels of staff turnover as they did not have the higher-level occupations

for apprentices to progress into. In one instance apprentices could perform some of the organisation's workload whilst training and this covered the cost of their training.

The second most frequent response was that employers wanted to **train people in a certain way**:

- Training people in the organisation's approaches, attitudes, values and ways. In some cases this refers to particular standards of working, for example, in relation to customer care: *"We don't target a particular age group but we do tend to recruit younger people because we like to train them in our ways. It also means that we don't have to undo bad behaviours if they have come from other settings"*. (Childcare provider). For others, mainly smaller employers, it concerned the development of close-knit teams where everyone was working in the same way and with the same objectives.
- Some employers, especially in construction and manufacturing, had specific ways of working. For example, they were manufacturing niche products or had a traditional approach to or pride in their occupation (e.g. painting and decorating). For these reasons, employers found it easier to recruit young people as apprentices and train them up rather than recruit experienced people from outside and have to retrain them in specific aspects of, or approaches, to the job. In some cases, for example hairdressers, respondents had had past poor experiences of recruiting experienced staff but then had to train them to remove 'bad habits'.

A significant proportion of respondents also mentioned that they wanted to **give young people an opportunity**:

In some cases, these were large public organisations (e.g. local authorities, and the health service) who also wanted to prioritise people in their local communities as well: *"As a public body with an engagement strategy I feel we have a corporate responsibility. The actual numbers are decided by size of budget available, requests we get from departments and the business case they put"*. (Public sector organisation). For others it was to compensate for the lack of job opportunities for young people in their local area.

- Some employers preferred to recruit young people because they brought 'energy and new insights' into their organisation, and also because it provided a good age mix. They wanted a mix of older experienced people along with younger people who were developing.

Many employers said that they have 'always taken on apprentices'. For some, this was because apprentices were the accepted mode of training within their sector (e.g. childcare) whilst for others the company had always recruited apprentices for as long as they could remember and this had served their business well.

In addition, it was also because apprenticeships were the preferred method of training. Whilst there were other options, employers preferred apprenticeships because there was a mix of 'hands on' and classroom based training and it provided people with a broader range of skills training. Some employers had recruited young people straight from college-based NVQs but believed they got higher quality staff from going down the apprenticeship route because of this off- and on-the-job mix. A small number of respondents also highlighted the lower wage rates of apprentices which made them a cost effective option compared to employing experienced

staff. They were cheaper to employ, but also could provide assistance to qualified staff (e.g. in a hairdressing salon).

In most cases employers usually gave a combination of three or four factors as to why they recruited apprentices. Even where employers decided their recruitment on a regular basis, apprenticeship recruitment was the norm for them if their workforce planning and business requirements determined it. Either the employer had regularly recruited apprentices in the past and/or apprenticeships were the benchmark form of training within the sector. Where recruitment behaviour had changed this was due to significant changes, for example, the introduction of the levy provided both a break and spur to apprenticeship recruitment for larger employers, for example, some levy payers looked to recruit more apprentices in order to spend their levy. A minority of employers reported not taking on apprentices due to COVID-19 (see Section 3.5 below).

As mentioned above, apprenticeship recruitment is a regular occurrence for the employers in the sample. This is related to their workforce planning and their future perception of need in different occupations and different skill levels. It is therefore a part of the business planning function and as long as the organisation is operating 'normally' apprenticeships are a default option. This is because it is the accepted or preferred way of training within their sector or for particular occupations and skills groups. Young people are preferred as recruits (even though most employers are open to all age groups) because it is a developmental process within the organisation e.g. training people in a particular way of working or more of a Corporate Social Responsibility (CSR) approach to giving young people an entry point and opportunity within the labour market.

3.3. Apprentice wage setting

The literature review (see Section 2.3) identified three main factors determining apprentice pay levels: cost, regulation and external labour market conditions. In order to explore employers' wage setting processes respondents were asked to provide details of the apprentice wages (differentiating between age, level and length of the apprentices they employed) as well as asking them about their decision making approaches.

Employers were asked to complete a datasheet which included information on the apprenticeship frameworks current apprentices were undertaking, how old the apprentices were, and how many years they had to completion. For each they were asked to provide the hourly wage rates of their apprentices for different apprenticeship frameworks, age groups and Levels, and for each year of the apprenticeship¹⁶.

Table 8 shows employer responses. A response is for each apprenticeship framework and NMW framework category. For example, if an organisation employed apprentices on three separate apprenticeship frameworks for 18-20 year olds, information would be provided for each apprenticeship framework. If an employer had two separate age groups (e.g. 16-17 and 25+) of apprentices undertaking the same apprenticeship framework this would be included for the two cohorts because the NMW framework rates vary by different age groups. The hourly wage rate provided by the employer was compared to the NMW framework rate for the age of the apprentice and the year of their apprenticeship and the responses were

¹⁶ The apprentice wage rates presented are those given by employers. Employers were not asked to provide any evidence.

summarised into five groups: below the NMW AR; at the NMW AR; above the NMW AR but below the NMW age rate; at the NMW age rate; and above NMW age rate.

Table 8: Apprentices wage rates by NMW framework rates and age group

First year of apprenticeship	16-17	18-20	21-24	25+	Total
Below NMW AR	4	0	0	0	4
At NMW AR	3	1	0	0	4
Above NMW AR below age rate	6	10	6	3	25
At NMW age rate	0	0	0	3	3
Above NMW age rate	6	17	4	11	38
Don't know	0	0	0	2	2
Total	19	28	10	19	76
Second year of apprenticeship	16-17	18-20	21-24	25+	Total
Below NMW AR	0	-	-	-	0
At NMW AR	0	-	-	-	0
Above NMW AR below age rate	5	2	5	1	13
At NMW age rate	3	1	1	3	8
Above NMW age rate	6	18	2	8	34
Total	14	21	8	12	53
Third year of apprenticeship	16-17	18-20	21-24	25+	Total
Below NMW AR	0	-	-	-	0
At NMW AR	0	-	-	-	0
Above NMW AR below age rate	0	0	5	1	6
At NMW age rate	0	0	0	1	1
Above NMW age rate	2	8	0	3	13
Total	2	8	5	5	20

Source: Warwick IER employer survey 2020

In total, there were 76 apprenticeship frameworks by the different age groups. Table 8 shows that in the first year of their apprenticeship, all but four groups of apprentices were paid at or above the NMW AR. Most groups were paid above the NMW age rate, even though employers

could have paid these apprentices at the NMW AR. A smaller but numerically large group were paid above the NMW AR but at or below the relevant NMW age rate.

Those groups in a second or third year of their apprenticeship tended to be paid above the NMW age rate.

A small group of apprentices were paid below the NMW AR in their first year according to the figures provided by their employer. All of these were aged 16-17. The numbers for non-compliance increased in the second year, consistent with the APS findings. This may be because these employers did not correctly report the correct wage rate (they appeared to be quoting the previous year's wage rates). In the interviews the employer did say that they paid according to the NMW framework or above the market rate in their area.

In the large majority of cases the wage rates are set at the highest decision making level within the organisation. This would usually be the owner, Managing Director or equivalent. Some of the care providers were charities, and so their pay levels would be set by their board of trustees.

In most cases wage rates are set on an annual basis, often in April because that is when the new NMW framework rates are published. A sizeable minority of respondents said that apprentice pay is reviewed within the year at progress review meetings with the apprentice, either quarterly or biannually. The employer would review how much progress the apprentice has made at the workplace and in their training (in consultation with the training provider). If the apprentice had made good progress their pay levels could be increased there and then. This tended to happen on a six monthly basis.

If an apprentice was an existing employee, it is usual that they would continue with the pay they were receiving. Apprentices who are existing employees are more likely to work for larger organisations who pay the levy (in England).

For new apprentice recruits in the large majority of cases, the employer would use the NMW framework to determine how much to pay the apprentice. All respondents said that they were aware of the NMW framework rates and all but two knew that these rates varied by age and whether an apprentice was on their first year or not. Many were familiar with the published NMW framework rates on GOV.UK and aware that these changed in April. Others were aware of these rates via their national trade bodies¹⁷ or used sector negotiated wage rates which were higher than the NMW framework¹⁸.

The fact that these approaches happened in most organisations means that they occurred across all apprenticeship frameworks, apprentice groups and types of organisation.

Few employers paid the NMW framework rates but instead used it as a threshold above which they would pay a premium. Whilst many organisations paid first year apprentices above the NMW AR (and below the NMW age rate), most paid above the NMW age rate even though they could pay lower wages at the NMW AR.

Therefore, the key role of the NMW framework was as a standard which employers could pay but, in most cases, decided to pay above it. Their reasons for paying the NMW framework plus a premium were:

¹⁷ See, for example, <https://www.nhbf.co.uk/news-and-blogs/blog/national-minimum-wage-rises-for-hair-and-beauty-salon-owners/>

¹⁸ For example, <https://www.fmb.org.uk/about-the-fmb/publications/batjic-wages-and-holidays/>

- **Contribution to the business.** Employers may start off paying the NMW framework rates but then if apprentices demonstrated good progress the employer would increase their pay above this level. In addition, the level of work an apprentice could undertake and thereby their contribution to the business increased the longer they trained and so employers could and would pay more. Furthermore, the more experienced an apprentice becomes the less supervision they require and this reduces the cost of the apprentice to the employer.
- **Fairness.** Most respondents said they paid the NMW framework premium out of a sense of fairness but there were several dimensions to this:
 - The belief that the NMW AR was satisfactory for school leavers living at home but for younger people who were older (i.e. 18+) who might have greater financial responsibilities it was not enough. Some employers did base the level of top-up on age.
 - Some employers paid the living wage to younger apprentices to whom they could pay a lower NMW age rate. Such employers (including one public sector employer) tended to pay the Living Wage Foundation's Living Wage rather than the NMW 25+ rate as part of their wider CSR.
 - Rounding up. Respondents mentioned wanting to pay just above the NMW age rate so they would round their annual pay up to the nearest £500.
 - Quid pro quo. Employers believed that if they treated their apprentices fairly, the apprentices would return it, for example, in terms of a commitment to the business during the apprenticeship and beyond.
 - Comparisons with other staff. In some settings e.g. adult care, apprentices were doing much the same job as qualified staff and so deserved to be paid the same rate.
- **Market forces.** There were two aspects to this: attracting better quality candidates and staff retention. In the former case, some employers mentioned operating in competitive labour markets and so paid a higher pay rate in order to attract better quality staff. In some cases it made recruitment easier and so offset more expensive recruitment costs. In the latter case, an employer had lost qualified apprentices to competitors who paid higher wages.

A sizeable minority of employers were aware of the NMW framework but ignored it because they either used nationally or organisationally determined pay rates, for example, NHS Trusts. Or they were aware of what other employers paid (in one case researching competitor pay rates on recruitment websites). In another case the training provider set the wage rate and told the employer what to pay.

In determining how much above the NMW framework to pay, some employers did base the calculation on business metrics, in particular, the level of work the apprentice undertook and the contribution to the business more generally. Job performance was also taken into account through regular progress reviews and consultation with the training provider. Finally, in some cases pay reflected the personal circumstances of the apprentice, for example, if they were living at home they would not be paid as much as someone living independently.

Across all apprenticeship frameworks there is a progression in apprenticeship pay from the beginning to the end of the programme in part because apprentices move from the NMW AR to the age rate, or from one age rate to a higher one. This is more likely to be the case for younger apprentices because the age groups are narrower (i.e. there are only two ages in the 16-17 age band so by definition more people are going to move into the higher age band). This is also due to the fact that NMW framework rates have tended to increase more than the rate of inflation. So if the rest of the workforce receives inflation or just above inflation pay rises, apprentices paid by or aligned with the NMW framework will necessarily narrow the gap. But the increase in pay rates over the life of the apprenticeship also reflects their growing contribution to the business as their work experience and skills develop and they are less likely to require supervision (thus reducing the employer's costs) and more able to take on higher paid work.

At the start of the apprenticeship, it is mostly those apprentices in lower cost apprenticeships (see Section 2.3.1), such as social care, childcare and retail, that receive a higher proportion of a qualified workers pay (75% and higher). This compares with other apprenticeship frameworks – business and related, engineering, engineering and hairdressing - where most apprentices receive 25%-49% of a qualified workers pay when they start their apprenticeship.

However, by the end of the apprenticeship the large majority of apprentices in most apprenticeship frameworks are earning at least 75% of a qualified workers pay. The only exception is hairdressing where there is much less pay progression (relative to qualified hairdressers) throughout the apprenticeship. This may be because most hairdressing apprentices are aged 16-17 and younger people are more likely to be paid a lower proportion of an experienced (typically older) person's pay. Pay progression is also slower in construction which also has a larger proportion of apprentices aged 16-17.

As the NMW framework is the predominant baseline reference point for determining apprentice wages, the pay of qualified staff was not mentioned as a consideration when setting apprentice pay rates. The exception is where qualified staff are also paid the NMW age rates, mainly in the childcare and hairdressing sectors, in order to maintain differentials. These are the two apprenticeship frameworks where employers are most likely to pay the NMW AR at the start of the apprenticeship.

In reality, employers' apprentice wage setting takes a number of factors into account simultaneously and, in some cases, there are complex calculations taking into account many of these aspects.

Box 1 provides more detail on the wage setting decision-making process of different employers who pay the NMW framework rate plus a bonus. The bonus is usually a performance related element which is based on the apprentice's contribution to the business. This approach is common across all types of business within the sample.

All employers in Box 1 take NMW framework rates into account. Some do this directly (e.g. by consulting the NMW framework rates on GOV.UK), others do it through industry rates (which they believe take into account and are set higher than the NMW framework), and some 'know' that their pay rates are higher than the NMW framework. The two employers in Box 1 that do consult the NMW framework, the wage they set can vary between the NMW AR and up to the age rate. Often apprentices on different Levels will be paid the same rate at the start.

Having a set baseline, the employers in Box 1 then appraise an apprentice's contribution to the business and use this to determine wages throughout the apprenticeship. Formal performance reviews occur on an annual basis or more frequently (quarterly in some cases). Pay increases are related to their contribution to the business determined through varying processes. In some cases contribution is based on a calculation of profitability (surplus over costs in the case of the hairdresser) or related to the day rate that the accountant can be charged at (for the accountancy firm). In other cases it is based on a review process which takes into account transferable skills (such as time keeping), performance on the training part of the apprenticeship (sometimes in discussion with the training provider), as well as the technical skills the apprentice is displaying on the job.

Some apprentices receive additional pay in the form of overtime (paid at varying rates), incentive payments (e.g. employee of the month), and bonus payments (for example, at Christmas).

For three employers in Box 1, performance related pay is calculated in the same way for apprentices as it is for other staff. When apprentices have completed their apprenticeship they would then move on to standard rate within the organisation which will include this bonus element. In the construction business, apprentices would move on to an industry standard rate.

Box 1: Apprentices wage pay setting – contribution to the business

<p>Accountancy business Non Levy payer Level 3 and Level 4 Accountancy 2 apprentices aged 18-20 and 25+ Pay above NMW age rate</p>	<p>Construction business Non Levy payer Level 2 and Level 3 Painting and Decorating 3 apprentices aged 18-20 Pay above NMW age rate</p>	<p>Nursery Non Levy payer Level 2 and Level 3 Childcare 2 apprentices aged 16-17 and 18-20 Pay above NMW AR/below age rate</p>	<p>Hairdressing Non Levy payer Level 2 Hairdressing 1 apprentice aged 16-17 Pay at NMW age rate</p>
<p>Apprentice starting pay is not based on the NMW framework because the employer 'knew' their pay is higher. Starting wage rates are set relatively low: "At the interview I discuss their financial situation e.g. whether they are supported by their parents (as they may need parental support for the first six months). We do not want the wage too high initially. I need to know whether they can perform". Apprentices have quarterly reviews: "Level 3 and 4s would start at the same rate. Level 4 wages would go up quicker as they will have more knowledge. Once they are more experienced we charge them to the client to get the recovery rate. Level 3s also need more oversight by another member of staff".</p>	<p>Apprentices are initially paid according to the rates suggested by the Painting and Decorating Association and 'we add a bit on top'. Level 2s and 3s start on the same pay. As they progress: "...it's about their skills and aptitudes e.g. are they reliable, on time, doing the job and training correctly. If they're not working and training well their wages will stay at this rate. Its about what they can do for the business rather than their age". Once qualified they would be on £19.00 per hour.</p>	<p>Starting pay takes into account the NMW AR, any experience and Level, age is not a consideration: "The directors have asked me to take into account what other nurseries pay but I haven't done this yet". Wages are reviewed every 6 months but wages are increased annually. Their performance at the job is important: "Staff who perform well are given 'merits' which are taken into consideration when reviewing wages. This is the same for all staff". Pay increases above inflation in line with the NMW AR. Performance incentives: employee of the month which is open to everyone. The winner gets a voucher.</p>	<p>Initial pay is set at the NMW age rate using GOV.UK. In the first year there is little contribution to the business. But in the second year they beocme profitable: "They are making me money so they deserve a pay rise". The wage structure applies to all staff: "We look at what profit they are making and give a commission on top of that". Any hours worked over 38 (including training) is paid as overtime but at the same pay rate. All staff receive a Christmas bonus. The employer is looking to keep pay rises below the rate of inflation because all other costs are increasing.</p>

Box 2 provides examples of employers for whom fairness was mentioned as a factor in their pay setting. Three of the four employer examples are levy payers, which in some cases affected their apprenticeship recruitment (positively and negatively) but is unlikely to have affected their pay setting. Two are public sector organisations and one (the construction company) was dependent on public sector contracts some of which had apprentice stipulations in them (as part of Section 106 agreements¹⁹). However, this approach occurred across all business and apprenticeship framework types.

One of the organisations in Box 2 was accredited as a Living Wage employer, and had a number of other accreditations related to recruiting, training and providing other support for young people. These aspects, and their approach to apprenticeship recruitment, pay and progression was part of the organisation's wider Corporate Social Responsibility (CSR).

Two businesses (construction and hairdressing) assessed what would be a fair wage for apprentices based on perceptions of their lifestyles and financial commitments. In one case additional costs of the job were taken into account (e.g. travel), although the employer did pay a mileage allowance.

Two of the organisations (local authority and hairdresser) paid above the NMW AR but below the NMW age rate. In the case of the local authority this was part of a balance between wanting to pay apprentices a fair wage but also keeping the costs down for the Heads of Service who were the ones making a decision to recruit apprentices. These Heads of Service had to make a business case for taking on apprentices and so their costs (and benefits) need to be reflected in pay rates. This employer also believed that by paying slightly more they attracted better applicants (for young apprentices recruited from outside the organisation). In the case of the hairdresser, the pay rate did not take into account the tips that apprentices could earn because that was an unknown amount. According to the Apprentice Pay Survey 2018/19, tips were highly prevalent amongst the pay of hairdressing apprentices (78% compared with 14% for all 16-18 apprentices) and, on average, amounted to 5% of weekly earnings.

¹⁹ Section 106 Agreements are legal agreements between Local Authorities and developers; these are linked to planning permissions, also known as planning obligations. They are used to generate added value to the local area or community e.g. hiring or training local residents. See <https://www.gov.uk/guidance/planning-obligations>

Box 2: Apprentices wage pay setting – fairness

<p>Construction business Levy payer Level 3-7 Construction and Civil Engineering Level 3 Business administration 60 apprentices aged 16-17 and 18-20 Pay above NMW age rate</p>	<p>Local authority Levy payer Level 2 and Level 3 Electrician, Public service op., Customer service, Business administration 5 apprentices aged 18-20 and 25+ Pay at NMW age rate</p>	<p>Public sector organisation Levy payer Level 3 Business administration 3 apprentices aged 18-20 Pay above NMW age rate – they are a ‘real’ Living Wage employer accredited by the Living Wage Foundation.</p>	<p>Hairdressing Non Levy payer Level 2 Hairdressing 1 apprentice aged 16-17 Pay above NMW AR/below age rate</p>
<p>This employer significantly increased the number of apprentices after the levy was introduced. Some of their contracts stipulate that they must take on apprentices. Rationale for pay setting: “It’s a wage we believe they can live on. We think £6.50 is doable in that regard. We expect them to do a 42 hour week. They need to travel to sites so are likely to need a vehicle. And they might need a laptop. We think with the £6.50/hour is manageable”. Level 4+ apprentices receive an annual company performance related bonus (as do other salaried staff). Level 3 apprentices do not. On completion apprentices go on to company-wide pay scales.</p>	<p>All externally recruited apprentices are paid the NMW age rate. Internal apprentices are paid their normal salary. The Learning and Development Coordinator and HR Manager make a submission to the Personnel Committee where pay levels are agreed. “We didn’t feel it was fair to apply the NMW AR, as it seems to be based on people living at home. We also get a slightly better quality of applicants by offering the NMW [age rate] for younger recruits. The NMW [age rate] is lower than the wages we pay, so this is attractive to Heads of Service because its still affordable”. When qualified apprentices will go on to the council’s pay scales.</p>	<p>This organisation recruits apprentices because of: “Corporate responsibility to bring in the next generation...it is the right thing to do as part of my talent pipeline”. All lower wages (and increases) in the organisation align with this, including apprentices and seasonal workers: “It was an easy decision to become a Living wage employer as we already paid above the NMW framework and meeting pretty much all the criteria anyway”. The organisation has been awarded other employment good practice kitemarks: “These are real accolades for the business”.</p>	<p>Apprentices start on £4.29 per hour, this increases to £5.71 after a 3 month probationary period: “They have to live, if they were 18 I'd pay them more but £150 for a school leaver it is enough for them. It's more than the MW”. The employer is aware of NMW framework rates through the sector federation: “I pay a little but more than the NMW [AR] and more than most salons. I think its fair to treat people how I'd like to be treated. They get tips on top but these are paid direct so I don't know how much they get”. Once qualified apprentices are paid £275 a week because they still require supervision. When they can work on their own they will be paid £400.</p>

Box 3 provides examples of different employers' rationales for paying at exactly the NMW framework rate, in these instances mostly at the NMW AR. In the case of the hospital, all pay rates in their organisation are determined nationally either via the NMW age rate for apprentices who are new recruits or by NHS Agenda for Change pay scales for apprentices who are existing staff. There is no other pay setting process within the organisation. For the construction business, the NMW AR has replaced previous higher sector-wide pay rates which applied to apprentices and all other staff²⁰. The NMW framework therefore provides the employer with a standard or what behavioural economists term a heuristic device, an external decision making shortcut. After completing, apprentices progress on to non-NMW framework related higher wage rates depending on the value of work they can undertake and, in one case, decided by the Joint Industry pay rates for fully qualified plumbers.

The nursery and hairdresser pay the NMW AR because it is the lowest they can afford to pay. Within the nursery, all staff are paid the NMW depending on their age. Their wage setting, like that in the hospital, is straightforward, they look on the GOV.UK website and pay their staff what the NMW framework is. For the hairdressing salon, the process is more complex. Apprentices are paid initially at the NMW AR. They have the potential to earn more based on a salon-wide profitability calculation which offers payments based on commission. Because this is based on profitability, costs are weighed against income and, according to the employer, as costs rise so does the break-even point for paying commission. Whilst apprentices potentially earn commission, they are prevented from generating enough income because they cannot work on clients individually due to insurance.

Two employers paid at the market rate, an engineering company and a nursery. In both cases there were a number of competitor companies in their area and they needed to pay competitive rates. The nursery has lost staff in the past due to the wages it pays and now they research the pay of competitors by looking at recruitment websites. These are reviewed every year but generally they rise with inflation. Wages are a key element of what they charge and are priced into these rates. But the business, and its workforce, has grown over recent years and they are currently at full capacity, even taking into account COVID-19. The engineering firm pays above the NMW age rate because other engineering businesses do: *"We want to recruit the best people and to do this we have to be competitive with our wages. So we have to give ourselves that edge so we can attract those people"*.

Across the sample as a whole, respondents said that apprentice wage rates tend to rise above the rate of inflation because the NMW framework usually increases above inflation. Employers also said that apprentice pay rates have not been influenced by the apprenticeship reforms of Spring 2017. This is more likely to have influenced apprentice numbers of levy payers.

Half of employers said that apprentices did not receive any additional income, such as, overtime, bonuses and tips. Just over one quarter paid apprentices overtime but this was on an occasional basis, and some did not ask 16-17 year olds or Level 2 apprentices to do this. Rates of overtime varied from the normal hourly rate to double time if it was at the weekend. Some apprentices (notably hairdressers) may be paid tips. Work bonuses included a Christmas 'box', automatic age-related pay increases, and length of service payments. Two employers ran employee of the month competitions which attracted bonus payments.

²⁰ See <https://www.jib-pmes.org/jib-pmes-promulgation-176-employee-rates-pay-allowances-entitlements-benefits-2018-2019-2020/>

Box 3: Apprentices wage pay setting – paying the NMW framework

<p>Construction Non Levy payer Level 2 Plumbing 3 apprentices aged 16-17 Pay at the NMW AR</p>	<p>Nursery Non Levy payer Level 2 Childcare 1 apprentice aged 16-17 Pay at the NMW AR</p>	<p>NHS Trust Levy payer Level 2/3 Health care, Business admin, Management team leader 81 apprentices all age groups Pay at NMW age rate</p>	<p>Hairdressing Non Levy payer Level 2 and 3 Hairdressing 3 apprentices aged 16-17 and 18-20 Pay the NMW AR</p>
<p>In the first year the apprentice acts as a plumber's mate. This is preferable to hiring a labourer, because there is a return later on from the apprentice. The apprentice's time on a job is not charged until later on when they can undertake jobs unsupervised: "Apprentice's wages are set by the NMW framework. The NMW framework provides a gauge for what we should pay apprentices. Before the NMW framework we used the Joint Industry Board apprentice rate which was higher. The cost of training is factored into the wage rate". At the end of the apprenticeship, the apprentice will move to an improver's wage (£10 an hour) and then to full-time adult rates (£15-£20 an hour) depending on the type of work they can undertake.</p>	<p>The nursery takes on Level 2 apprentices with the intention of continuing their training through the Level 3 apprenticeship. In the first year Level 2 apprentices are paid at the NMW AR, then they would be paid at the NMW age rate, including at Level 3. The wage setting process is straightforward: "I go on GOV.UK and pay what it is. There's not enough money in childcare so we don't pay above this. We'd love to pay them more but it's not just the wage its other things like the 20% off-the-job training". Apprentices are given their meals on-the-job, and Level 3s occasionally do overtime. All qualified staff are paid the NMW age rate.</p>	<p>Apprentices are recruited because of the age structure of the hospital: 'it is a rolling programme'. All wages, and increased annual pay rates, are nationally determined. All new apprentices are paid the NMW age rate whilst existing employees are paid according to Agenda for Change pay scales. Apprentices tend to stick to their regular working hours. If they do work overtime they usually claim this back as time off in lieu.</p>	<p>Apprentices are paid at the NMW AR and have the potential to earn commission. If they reach a break even point (earning £1k in income over four weeks) they would get 35% of the surplus. But none of the apprentices achieved this because rising costs are pushing up the threshold: "We'd love to pay more but I budget out of what the salon takes all the costs for rent, rates, electric and then see what I've got left. The margin is getting tighter". "It's a labour intensive industry and the apprentice time and training comes out of the business profit. An apprentice costs us £12k in wages and nothing comes back". The insurance does not allow them to work independently on a fully paying client".</p>

3.4. Apprentice training

In England, apprentices must spend at least 20% of their working hours undertaking occupational off-the-job training (this does not include Maths and English)²¹. Off-the-job training is: "...training which is received by the apprentice, during the apprentice's normal working hours, for the purpose of achieving the knowledge, skills and behaviours of the approved apprenticeship referenced in the apprenticeship agreement".

A number of studies have shown that apprentices do not spend 20% of their working week in off-the-job training. In the most recent national (England) survey of apprentices, respondents said they spent an average of 14 hours per week in off-the-job training²². This ranged from an average of 11 hours per week in health, and business and related apprenticeship frameworks to 21 hours in construction and engineering. A recent survey of accountancy apprentices found that 38% of apprentices spent less than 20% of their hours training, this was in spite of the fact that the training provider monitors apprentices' adherence to this percentage²³.

In Northern Ireland, Scotland, and Wales there is less stipulation of a defined amount of off-the-job training. None of the employer respondents in the devolved authorities (DAs) said their apprentices undertook 20% off-the-job training unless it was one day a week at an external provider.

The definition of what comprises 'off-the-job' training is quite broad and, confusingly, includes on-the-job training such as: job shadowing, mentoring, work visits, 'lunch and learn' sessions, project work, and attending meetings²⁴. In addition, 'off-the-job' training does not need to be delivered by an external training provider and could be delivered by a co-worker who mentors and/or supervises the apprentice in their work.

Most apprentices in the survey spent between 25-35 hours working. The lowest number of working hours was 16 because these engineering apprentices spent a large amount of time training. The longest working week (45 hours) was in a social care and a retail employer.

Most apprentices spent between 6-10 hours training (52%), but a significant minority (34%) spent more than ten hours in off-the-job training. Engineering and hairdressing were the two apprenticeship framework areas with the highest level of off-the-job training, 100% and 85% of employers said apprentices trained for at least 20 hours per week. In health, social care and sport, and retail no employer reported at least 20% off-the-job training.

The proportion of time apprentices spend in off-the-job training is partly to do with which country they are in (see above) but also definitions of off-the-job training.

Most apprentices received blended learning, that is a range of different provision delivered in different locations, by different modes and by different people. Off-the-job training comprised:

²¹ See

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/831591/OTJ_Guide_v3_-_12092019_Final.docx

²² IFF Research (March 2020), Apprenticeships Evaluation 2018-19 – Learners Research report. Department for Education.

²³ Dickinson, P. (March 2020), The Impact of Accountancy Apprenticeships. Kaplan and AAT.

²⁴

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/808970/apprenticeship_20_off_the_job_training_guide.pdf

- Most employers said their apprentices receive training off-site at an external training provider. This is predominantly **day release**, but can also be half day release or block release. Day release tended not to occur alongside any other form of off-the-job training.
- **Supervised on-the-job sessions delivered internally** by another member of staff was the next most frequently mentioned mode of training mentioned by just over one quarter of employers (this tended to be in child care and hairdressing). Usually this was undertaken alongside other modes of training, such as, e-learning.
- **A minority of employers also mentioned distance learning.** In most cases this was e-learning although some employers mentioned that apprentices used workbooks. Distance learning always took place alongside other modes of training.
- **Supervised on-the-job sessions delivered by an external training provider** were mentioned by around one in five employers. This training tended to happen alongside internally supervised training and e-learning.

Most apprentices received additional on-the-job training. This included:

- **Supervised on-the-job sessions delivered internally.** In many cases this additional training concerned techniques which were supplementary to the particular apprenticeship framework but relevant to the specific work the apprentice would be undertaking, for example, welding in a construction apprenticeship or the use of particular products in hairdressing. In the case of hairdressing, some employers reported having weekly training nights for apprentices but also other staff, whilst child and adult care providers mentioned additional sessions on autism and epilepsy. This training also included supervising apprentices whilst they were applying the knowledge they had acquired directly in a work setting. In some cases it was difficult to delineate between what employers termed off- and on-the-job training (as described above).
- **Statutory training.** A number of employers also mentioned training on particular legislative requirements relevant to that sector and/or occupation. This included health and safety, manual handling, food hygiene, first aid and Prevent. Whilst training in the statutory aspects of a job is often included in the apprenticeship framework, these were for the whole workforce to introduce new aspects (if legislation changed) or as refresher courses.

Other on-the-job training included mentoring. According to apprenticeship guidance this could be included in off-the-job training but was not counted as such by some respondents. Other training could also perhaps have been counted as off-the-job training but was not, such as attending staff meetings and working in different departments.

Of all the employers interviewed about training only two mentioned functional skills. In one case this was delivered at an external provider whilst in the other it was through a workbook.

According to employers, many apprentices do not receive 20% off-the-job training. In some cases, this appears to be a misunderstanding over what constitutes off-the-job training. In a number of instances such training is directly relevant to the apprenticeship framework, does impart new knowledge, skills and behaviours, and does take place in normal working hours. To this extent, therefore, it could be defined as off-the-job training and included in the apprentice's weekly total.

Box 4 provides examples of blended learning across different apprenticeship frameworks. This shows how differently employers define off- and on-the-job training, as well as the different terminology for people providing this training. For example, in the construction firm and the hairdresser, co-workers are essentially delivering supervised on-the-job training but one is termed a mentor whilst the other is described more informally. In the example of the nursing home, all training takes place at the place of work though defined as off-the-job training. Half of this training is an external mentor observing and supervising apprentices as they perform their work. The other part of the training is in a discrete training room at the nursing home.

Whilst all four of these employers said they did not view training as a cost pressure, two did describe it as expensive. The hairdressing salon calculated that if the apprentice went on and undertook a Level 3, the full training costs would be £20,000 across the full term of training. This is for a non-levy payer who would only pay 5% of the training provider's costs. The engineering company trained apprentices for four years and calculated that they would receive over 1,100 hours of formal, off-the-job training in their first year (due to the six months block of initial college based training). However, they thought this was worth it because of the standard of engineer they required and got.

Most employers are happy to bear the costs of training because of the contribution apprentices make to the workplace. A large majority of respondents said that the costs of training the apprentice are recovered by the work they contribute during the apprenticeship:

"Yes, they benefit us a great deal because they are doing the job. You lose people for a day but that's why we use apprenticeships because we can incorporate, manage and plan for it, the outcome is beneficial to [the apprentice] and the business. (Construction company, non-levy payer).

"It's not [a cost pressure] because they are an additional person supporting the bakery. We spent many years trying to find qualified bakers but cannot get them so made the decision that we would find young people, evaluate them over a probationary period then offer them an apprentice. This is the fourth apprentice we have had since making this decision. (Baker, non-levy payer)

Some employers said that it is a balance across the term of the apprenticeship. Initially apprenticeships are cost negative, then they become cost neutral, but as they get more training and experience they become cost positive:

"In the end, we get more back financially because they are taught correctly and quickly the one time and do not have to relearn anything. We also benefit from the loyalty of the staff who have trained with us. They break even over the whole course of the apprenticeship. We don't think about the cost". (Hairdresser, non-levy payer)

Box 4: Examples of blended learning

<p>Construction Level 2 Highway maintenance Total hours (incl. training): 40 Off-the-job training: 8 hours On-the-job training: don't know Is training a cost pressure: No</p>	<p>Nursing home Level 2 Social Care Total hours (incl. training): 44 Off-the-job training: 3 hours On-the-job training: 3 hours Is training a cost pressure: No</p>	<p>Engineering company Level 3 Electrician, and various Engineering Total hours (incl. training): 39 Off-the-job training: 7 hours On-the-job training: 2 hours Is training a cost pressure: No</p>	<p>Hairdressing Level 2 and 3 Hairdressing Total hours (incl. training): 39 Off-the-job training: 12 hours On-the-job training: 3 hours Is training a cost pressure: No</p>
<p>Nature of the training: "They go to college 1 day a week and the other 4 days they are working. When they are working they are with their mentor teaching them constantly". On-the-job training involves working alongside an experienced mentor: "If they are with a mentor that is doing drainage they learn drainage. If they are on another site with a mentor that is doing curving they learn about curving". The college provides technical and practical skills while the on-the-job training follows through on what they learned applying this practically "in a way it is done in this company. In some cases people may be more watching for a bit than actually doing it".</p>	<p>Nature of the training: "Training is split between on- and off-the-job. On the job training takes the form of a mentor coming to the home and observing the apprentice doing their job and mentoring them in doing so. Off-the job training involves the use of a training room within the care home with the mentor. The training ranges from: working through training modules, discussions about relevant experiences the apprentice has had in the home; and teaching theory". This approach to training enables the apprentices to apply what they have learnt and gain work experience.</p>	<p>In the first 6 months apprentices go to college full-time, then it is one day a week for the remainder of the apprenticeship. In addition, apprentices do 2 hours on the job per week. The initial block training was seen as valuable rather than having 'green' apprentices going to a one day a week block. However, it is expensive as they pay their wages for this period. On-the-job training includes: "sessions with engineers and electricians e.g. training in the products they are going to be using. They have already done some online training e.g. around installation". Apprentices also receive health and safety training.</p>	<p>Training is undertaken on Monday and Tuesday when the salon is quietest. Off-the-job training is delivered at an 'Academy'. This involves practical shop floor work on live models as well as reception work, stock, cleaning, client welfare, retail and customer service training. Some of the latter is delivered online. Apprentices also receive diversity and equality training. On-the-job training includes colouring and styling whilst being supervised working at the salon. The owner also teaches them the business side e.g. how wages are worked out.</p>

In most cases employers view apprentices as a positive contribution to the workplace (as well as benefitting the apprentice) as they are able to perform the job well; are developing work related skills; and enhance the workplace in other regards e.g. bringing new ideas.

“Yes, with bells on! Apprentices contribute massively to the company. They are keen and eager to learn. The main cost to me is when the apprentice is out of the office training. It means I have to try and spread the workload between the other two members of the finance team”. (Accountant, non-levy payer)

Some respondents also liked to have a good age range across their workforce.

A minority of employers said that apprentices were cost positive either because of the low wages they were paid or because most of the training was completely or heavily subsidised:

“Hiring apprentices is a ‘cheap option’. I can hire people who are keen, eager people you can train to work in a small business. Trying to hold onto qualified people in the roles we have is very difficult because the nature of the work is quite repetitive. If we bring people in with no experience they are more likely to stay [for 18 months, the length of the course] because we are helping to carve a career path for them. It works well for both parties.” (Accountant, non-levy payer)

Most employers were not levy payers (in England) or were SMEs (in the DAs) and so received heavily subsidised training. Even within levy payers, whilst there was a cost to the organisation as a whole, the levy did provide a ring fenced training budget for apprenticeships which employers wanted to utilise as fully as possible.

Only a handful of employers said that training costs were not recovered from an apprentice's work contribution. In one case this referred to Level 2 apprentices only, as Level 3 apprentices could undertake cost work. For another it was because they paid the Living Wage Foundation's Living Wage and so apprentice pay levels were high.

Therefore, off-the-job training was not considered a cost pressure in most cases. Employers were aware that this was a requirement of apprenticeships and so planned for it and accounted for it. Many had been delivering apprenticeships for a number of years and so it was an inherent part of the programme: *“It is recognised that training is intensive in the first two years. The introduction of the 20% off-the-job training element has had no impact on the company's training or wages paid to apprentices because there has always been a substantial off-the-job training element”.* (Construction company, non-levy payer)

For those employers who said off-the-job training was a cost pressure, most said that it was due to losing the apprentice for one day a week whilst they were training and had to be covered for. In adult and childcare settings there is a ratio of staff members that has to be maintained, and so if a member of staff is absent they had to be covered for. When training was delivered on-the-job and in-house, then this required a supervisor's time (the owner or another senior staff member) to train and observe the apprentice, which meant that the supervisor was not earning (e.g. a senior stylist at a hairdresser).

Off-the-job training also became more of a cost pressure when the apprentice was an existing employee who was paid their existing level of salary. Losing someone this expensive for one day a week could be costly.

In most cases the amount of training did not impact on wages. In those cases where employers said that 20% off-the-job had affected them, some mentioned that it had influenced (decreased) the numbers they recruited. For the remainder, off-the-job training was included

in the cost-benefit calculation of apprenticeships and so was factored into the apprentice wage they paid offsetting to some extent the time they would be absent from work.

3.5. The impact of COVID-19

Respondents were asked whether their apprenticeship recruitment plans had been affected by COVID-19. Most, six out of ten, employers said that their plans had not been affected. Most of these had stuck to their original plans and recruited the number of apprentices they had planned to.

Some did report that their 2020 apprentice recruitment plans had been affected by the pandemic. In almost all of these cases, apprenticeship recruitment had been stopped or paused, although one respondent said that they had halved the number they planned to recruit in September. In some cases apprentices had been furloughed and/or their training paused. This was due to a combination of factors such as: businesses closing down due to the lockdown; businesses still operating but everyone was working from home; and social distancing requirements meaning that apprentices could not be supervised or work alongside experienced colleagues.

A smaller number said that their plans had been affected because it had delayed the completion date of their current apprentices, and they would or could not recruit new apprentices until the current batch completed (e.g. due to management or supervisory capacity). Only one employer said that they had made a current apprentice redundant.

The impact of COVID-19 on apprenticeship recruitment is much more likely to be felt in 2021. Around one quarter of respondents said that their recruitment plans were uncertain for next year, for the most part because they were uncertain as to what their trading conditions would be.

A sizeable minority said that their apprentice recruitment plans would be negatively affected and this was due to the impact of the pandemic on their business. Most did not expect business demand to pick up sufficiently to warrant them taking on apprentices, and some said their businesses were 'fighting for survival'. A number also mentioned that it would not be possible for an apprentice to train under existing social distancing and working from home requirements.

Most, just over two out of five employers, were positive however. The largest number of employers said that their 2021 apprenticeship recruitment plans would not be affected by the pandemic and its aftermath.

Business and administration, and hairdressing employers were the most pessimistic about their 2021 apprentice recruitment plans. Adult social care, construction and manufacturing tended to be optimistic, whilst childcare providers had mixed views.

3.6. Conclusion

For most employers, apprentice recruitment was a long standing and annual process related to their workforce needs. Most organisations paid their apprentices more than the NMW age rate, usually going above the NMW age rate even though they could pay above the NMW AR. This was mostly based on the apprentice's contribution to the business due to a sense of fairness.

Most wage setting processes are common across employers i.e. they vary little between sectors, frameworks and organisations. Although those delivering lower cost apprenticeships

tend to start their apprentices on pay levels closer to qualified staff. But by the end most apprentices are being paid at or close to the wage of qualified workers.

Most apprentices spend less than 20% of their working week in off-the-job training. This is consistent with the findings from national studies. Most apprentices receive blended learning which combines different types of training on- and off-the-job and this may contribute to inaccuracies in calculating the time apprentices spend in off-the-job training.

The impact of COVID-19 is more likely to be felt in 2021 as business demand slows and the impact of COVID restrictions continues (e.g. social distancing).

4. Conclusions

4.1. Introduction

This study was prompted by the fact that in the APS 2018/19 the LPC identified that significant proportions of apprentices were being paid below the relevant minima, and the LPC's commitment to review the level and structure of the Apprentice Rate. Non-compliance tended to be greatest for 16-18 year olds and for 19-24 apprentices in their second year, and in hairdressing, childcare, engineering, engineering and health, social care and sport. Regression analysis of the APS 2018/19 confirmed these findings. Based on these findings the LPC commissioned research to better understand how employers set pay for their apprentices, especially the role of the NMW AR.

A literature review found that the wages of apprentices are determined by: the costs of the apprenticeship, and the ability of employers to recoup those costs either during or after the apprenticeship has been completed; regulation, including the NMW framework but also statutory requirements of apprenticeships such as the levy and 20% off-the-job training; and external labour market conditions, this includes the supply and demand for apprentices, but also the supply and demand for skilled workers which may have prompted apprenticeship recruitment in the first place.

To explore employer apprentice wage setting decision making, in-depth qualitative interviews were undertaken with 31 employers across the UK in those apprenticeship frameworks and age groups where non-compliance is greatest.

4.2. Addressing the main research questions

A large number of employers in the sample have been taking on apprentices for a number of years and recruit apprentices on a regular basis, often annually. Apprenticeships are therefore a default in meeting their future workforce and skills needs, although apprentices do contribute to the business whilst undertaking their training. Apprenticeships work for these employers, they have had positive experiences in the past and it serves their workforce needs well. They understand the costs and benefits of apprenticeships, and the implications of this form of training (especially off-the-job training). For some, apprenticeships are the required form of training in their sector or for particular occupations. But for most employers, the combination of gaining work experience, and being trained both on- and off-the-job is a format that works.

The study set out to address five research questions, and the main conclusions are structured around these questions.

4.2.1. What are the factors that determine how employers set the pay of apprentices, in absolute terms and in relation to other workers?

A distinction needs to be made between existing staff who move on to become apprentices and people who are recruited directly on to an apprenticeship. In the case of the former, and typical of larger organisations/levy payers in our sample, they would be paid the same wage or salary they would have been paid in their job.

For new apprenticeship recruits, the NMW framework serves as a baseline point of reference. All employers are familiar with the NMW framework and all but two knew that it varied by age, and the length of time an apprentice had been on their programme. Whilst some employers pay at the NMW framework rate, a large number of employers in the sample paid above the

minimum rate they were required to pay. Of these most decided to pay above the NMW age rate.

This decision is made by the most senior person in the organisation (e.g. the owner or Managing Director) or an appropriate wage setting committee (in the case of charities and public sector organisations).

The main reason why NMW framework plus a bonus is paid is primarily out of a recognition of the apprentices contribution to the business which is greater than is reflected in the NMW framework. This is a combination of the progress they make in their training (and thereby their ability to undertake higher level and more lucrative work) and the work they undertake during their apprenticeship. In some cases this is a sophisticated assessment of profitability whilst in other cases a judgement is made at formal review processes based on evidence from their supervisor, the training provider and discussions with the apprentice themselves.

In other cases it is based on a sense of what it is 'fair' to pay young people based on their circumstances (which varies according to their age), for some a sense of CSR and a feeling that if they are fair to the apprentice, the apprentice will be fair to them in return e.g. in terms of current and future commitment to the job and organisation.

Some employers pay NMW age rate plus a bonus because of market forces. Either they want to recruit high calibre apprentices in the first place, or they have lost apprentices and newly qualified staff in the past to competitors who pay higher. Some employers use industry wide pay guides which themselves take into account NMW framework pay levels.

The NMW framework plus a bonus approach is common across most apprenticeship frameworks, apprentice age and Levels, and organisations.

In most cases, the wages of qualified workers were not mentioned when discussing apprentice pay setting. To that extent, the relative pay of apprentices is not taken into account. The exception was in the those apprenticeship frameworks where qualified staff are likely to be paid the NMW age rate themselves, so some distance needed to be maintained between apprentice pay and that of qualified staff (e.g. in childcare).

In keeping with the findings of past research, lower cost apprentices (e.g. childcare) are more likely to be paid closer to that of qualified workers than those on higher cost apprenticeships (such as construction and hairdressing). However, by the end of the apprenticeship, most apprentices are paid at or close to the pay of qualified workers. The two exceptions are hairdressing and, to a lesser extent, construction probably because these two apprenticeship frameworks recruit mostly school leavers (according to employers in this sample).

4.2.2. Assess any impact of the increases in the Apprentice Rate on pay setting for apprentices

Few employers use the NMW AR, most employers we interviewed believed it was too low. If it is paid then it is for 16-17 year olds and not older apprentices, or in childcare because qualified staff are paid at the NMW age rate. Apprentice pay rates also increase during the term of the apprenticeship so even if an apprentice started on the NMW AR they are more likely to complete at a higher rate.

Generally apprentice pay has risen above the rate of inflation because the NMW framework has risen above inflation. But as the NMW AR has risen slightly more than the NMW age rate, this could reduce the differential in sectors likely childcare where staff are paid the NMW age rate.

In the small number of cases where above inflation increases in the NMW framework were mentioned, this was discussed in terms of the increasing costs of apprenticeships or operating costs more generally. For example, increased training costs alongside increased rental costs.

4.2.3. Investigate why some employers set pay for apprentices to be above the NMW AR but below the appropriate age-related rate, and how these rates are determined

This occurred with employers in three apprenticeship framework areas: business and related; childcare; and hairdressing. The rationale varied between employers. In some cases, employers wanted to start apprentices on a relatively low wage (but not too low as the NMW AR) to see if the apprentice was committed to the job. This occurred in an accountancy and hairdressing business. In the case of an NHS Trust, the decision to pay the rate was determined nationally (as were all other pay rates in the hospital) and there was no local level decision making involved.

One other reason was that childcare providers wanted to pay a little more than the NMW AR but still retain some differential between apprentices and qualified staff.

4.2.4. Explore whether training hours influence decisions around pay and how employers record training hours

In keeping with other analyses of apprentice training, a number of employers in this study did not deliver 20% off-the-job training to their apprentices. But this did not appear to be a concern when they were asked for hours of training on- and off-the-job.

Most employers in the sample had run apprenticeships for several years and the nature and extent of training had been largely set. This is why the impact of the 2017 reforms had little impact on apprentice pay setting. Where there had been an effect, due to the 20% off-the-job training requirement, this influenced the number of apprenticeship recruits (as employers needed certain numbers of staff present to undertake the work) and not pay levels.

Training is not seen as a cost pressure by most employers as this is either factored in to the decision to take on apprentices in the first place, or because the costs of training are expected to be recovered by the end of the apprenticeship. In addition, apprentices add non pecuniary benefits to employers such as bringing in new ideas.

The calculation of training hours is also dependent on definitions of training. Hours apprentices undertake in off-the-job training are easier to calculate when that is undertaken one day a week at an external provider. It is more difficult to calculate when learning is blended involving different pedagogies, locations, providers and delivery methods.

In interviews it was apparent that training which could have been included as off-the-job training was not defined as such (e.g. apprentices getting wider experience whilst working in different departments). In addition, what some employers included as off-the-job training was defined as on-the-job training by others even though it appeared to be similar (e.g. observing and supervising apprentices whilst undertaking work tasks).

4.2.5. Explore whether employers believe the NMW AR is overly complex and if so, why.

The findings from the APS 2018/19 suggests that a significant proportion of 19-24 year old apprentices in their second year are paid lower than the NMW age rate. This could indicate that some employers are unaware that apprentice minimum pay rates for those 18+ and

beyond their first year should be paid at least the NMW age rate minima. However, all but two employers were aware of the complexities of the NMW framework as it applied to apprentices and that the NMW age rate applied 18+ second year apprentices.

Whilst most organisations paid above the minima they were required to pay, some employers provided information that suggested they paid below the NMW framework, including the NMW AR. However, this is more likely to be incorrect reporting of the wage rate rather than non-compliance.

4.3. Conclusion

The NMW framework provides a baseline reference point to employers for setting their wages. In the absence of other pay reference points the NMW framework is a useful guideline. Most employers in this study choose to pay above this rate. Even though they are able to pay the NMW AR plus a bonus, they decide instead to pay above the NMW age rate. This additional pay is usually in recognition of the apprentice's contribution to the business, which increases during the term of the apprenticeship, out of a sense of 'fairness' or due to market forces. In a small number of cases, apprentice pay is determined by national sector pay rates.

Apprenticeship recruitment and pay over the past few years appears to have survived various shocks to the programme, including the apprenticeship reforms in Spring 2017 and the initial impact of COVID-19. However, how apprenticeship recruitment is affected by the ongoing pandemic into 2021 remains to be seen. A number of employers were more pessimistic about apprenticeship recruitment next year as COVID-19 continues to affect business demand.

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6 Annex A: Employer interview schedule

LOW PAY COMMISSION APPRENTICE WAGE SETTING STUDY

SCREENER

ASK ALL

S1. May I speak to [NAMED CONTACT]

Yes – transferred	1	ASK S2
Yes – correct respondent speaking	2	
Definite appointment	3	TIME / DATE TO CALL BACK
Soft appointment	4	
Refusal	5	THANK AND CLOSE
Not available in deadline	6	
[IF NAMED CONTACT] No-one of that name works here / Person no longer works here	7	ASK FOR NAME OF PERSON NOW RESPONSIBLE FOR HR AND TRAINING; AND RE-ASK S1
Other (SPECIFY)	0	

WHEN TALKING TO APPROPRIATE PERSON

S2) Good morning/afternoon. My name is _____ calling from the University of Warwick Institute of Employment Research. We are conducting a study for the Low Pay Commission on how companies set apprentices' wage levels. The study will involve a telephone interview. Can I just check are you the best person (or one of the best people) in your organisation to talk to about apprenticeships.

Yes	1	ASK S4
No	2	ASK S3

IF FURTHER INFORMATION REQUESTED

This research is exploring how employers set pay levels for their apprentices. For example, how are decisions about pay for apprentices made, how this varies by the age of the apprentice, and how does this compare to decisions about the pay of non-apprentice workers. The research is being undertaken for the Low Pay Commission which is an independent body that advises the government about the National Living Wage and the National Minimum Wage.

If you would like to speak to researcher responsible for the study, then contact:
Peter Dickinson p.dickinson@warwick.ac.uk

IF NO AT S2

S3) Who would be the best person to talk to about these issues?

Name _____

Telephone Number _____

E-mail _____

THANK THEN CALL THAT PERSON AND ASK S1

WHEN TALKING TO APPROPRIATE PERSON

S4) Can I just check....? [ASK APPROPRIATE CATEGORY / CATEGORIES]

	Yes	No / Don't know
Do you currently have any staff undertaking a formal Apprenticeship	1	2
(IF NO) Have you had any staff completing a formal Apprenticeship in the last 12 months	1	2

IF NO TO ALL THANK AND CLOSE

IF YES AT S4

CHECK IF IN QUOTA CELLS OF INTEREST

S5) FOR THE SECTOR OF THE EMPLOYER CHECK IF THEY HAVE (OR HAD IN LAST 12 MONTHS) APPRENTICESHIPS WITHIN THE FRAMEWORK/STANDARD OF INTEREST: (WRITE IN SPECIFIC AREA) / IF DO NOT HAVE IN THE SECTOR OF INTEREST THEN CLOSE / IF DO HAVE APPRENTICES IN SPECIFIC FRAMEWORK/STANDARDS OF INTEREST: THEN CHECK IF THESE LEVEL 2 OR LEVEL 3

		Apprenticeship	
		Level 2	Level 3
Framework/ Standard	Age group		
Business, Administration and Law			
Construction			

Health, Public Services and Care			
Retail and Commercial Enterprise			

CHECK IF IN QUOTA CELLS OF INTEREST

ASK ALL IN QUOTA

- S6) As mentioned, the study involves a telephone interview – this will take at least an hour. When would it be possible to contact you?

Date _____

Time _____

CHECK ADDRESS AND EMAIL

SAY WILL SEND EMAIL CONFIRMING DETAILS, PLUS FURTHER INFORMATION ON THE STUDY, AND INTERVIEW CONSENT FORM.

THANK AND CLOSE

DATA SHEET

This data sheet could be sent to the respondents in advance so that they have the information to hand during the interview.

	Number of apprentices	Age of apprentice(s) at recruitment	Number of years to completion	Hourly wage rate year 1	Hourly wage rate year 2	Hourly wage rate year 3	Average hours of work per week
Frameworks / standards and level							
[Insert name]							
[Insert name]							
[Insert name]							

Total of apprentices		
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SEMI-STRUCTURED INTERVIEW SCHEDULE

A. Introduction

READ TO RESPONDENT: The University of Warwick Institute for Employment Research (IER) has been commissioned by the Low Pay Commission to undertake a study of employers to understand how they set the wage rates of their apprentices. Your participation is voluntary and you are free to withdraw at any time without giving any reason.

All the information and data you provide will be held in the strictest confidence. It will only be reported in aggregate form and your answers will not be reported to anyone in any way that would allow you to be identified, without your express permission.

REMINDER: RESPONDENT WILL HAVE BEEN DIRECTED TO THE ONLINE CONSENT FORM WHEN THE INTERVIEW WAS ARRANGED. CHECK THAT THIS HAS BEEN COMPLETED. IF NOT ASK THE RESPONDENT TO COMPLETE IT. HAVE A COPY OF THE CONSENT FORM TO EMAIL TO THE RESPONDENT IF NECESSARY.

A.1 Are you happy for me to continue with the interview?

Yes [] No []

READ OUT (IF APPROPRIATE): I would like to record the interview, this is only so that I can accurately write down what you say. The voice recorder is encrypted and will be stored on an encrypted server. Are you happy for me to audio record the interview?

Yes [] No []

Respondent's name: _____

Organisation: _____

Survey ID: _____

B. Background information

PREAMBLE: the purpose here is to obtain some information about the company, its recent business performance pre COVID-19, and the rationale which guides its decision to invest in apprenticeships.

B.1 To begin with, could you tell me about this workplace – what it produces, its main markets and so on?

[PROBE: whether business is increasing, nature of competition (e.g. the degree of price competition in main markets, etc.), the number of people employed and how this has changed over the recent past].

B.2 Why does the company train apprentices?

[PROBE: on rationale for investing in apprenticeships, how it decides on how many apprentices to take on each year, why apprenticeships and not other forms of training etc.]

- B.3 How many or what percentage of apprentices are retained at the end of the apprenticeship? If not all, why is that the case?

NOTE TO INTERVIEWER: find out how many apprentices choose to leave (and if so, why) and how many leave because the employer does not wish to retain them (and if so, why)

- B.4 Does the workplace take on apprentices every year?

[PROBE: on whether a recurrent recruiter of apprentices, has the number taken on over the recent past changed and why]

- B.5 How many apprentices are there currently?

NOTE: This information will have been asked for in the data sheet. There is a need to make sure that information is collected on overall number, the standards they are studying towards, level / duration of apprenticeship / whether existing employees / age profile / whether existing employees or new recruits).

- B.5 Do you have a preference to recruit apprentices of a certain age? If so, why?

NOTE TO INTERVIEWER: there is a need to distinguish between 16/17, 18-24 year olds, and those 25 years and over. There is also a need to identify why the employer has a preference for apprentices of a certain age and whether this is related to a wage/productivity trade-off or some other reason (e.g. age related restrictions).

- B6. Have any of the apprenticeship reforms introduced in May 2017 (such as the apprenticeship levy) affected your recruitment of apprentices?

ASK OPEN ENDED AND THEN PROMPT AS NECESSARY WITH: in what ways, has it affected recruitment with respect to the standards / frameworks, level, the age of apprentices, etc. Why is this the case? Has it led to any changes in the way apprenticeships are delivered such as changing the percentage of time spent on off-the-job training.

C. Apprentice wage setting

PREAMBLE: Explain that the questions which follow are about how the workplace sets the wages of apprentices. The interest is in understanding the process whereby an apprentice's wage rate is actually set. The respondent can either talk about all apprenticeships if they prefer (where they have more than one), or the one which falls within the sampling frame which is either the most numerous in the workplace or the one which the respondent feels most competent on which to answer questions. The main focus, however, is the one of the apprenticeships in the sampling frame (see S5 above).

- C.1 How much do you pay your apprentices per hour?

[ASK OPEN ENDED AND THEN ASK THE RESPONDENT FOR RATES BY: age, by subject and level (if applicable), and year of the apprenticeship. NOTE: Check as this information will have been requested at the time of arranging the interview. If annual/weekly amount provided ask for hours of work of apprentice].

- C.2 How do you go about setting the wages of your apprentices?
[ASK OPEN ENDED AND THEN PROMPT ABOUT: who is involved in making the decision - check for involvement of finance manager / director, trade unions, etc. – and whether there is a formal review process in place. Is this any different to how you set wage rates of other workers].
- C.3 Who has the final decision for setting apprentices' wages?
[ASK OPEN ENDED AND THEN PROMPT: whether owner/proprietor, training manager, works council, wage negotiating committee, etc.].
- C.4 How often do you review apprentices' wages?
[CHECK: whether it is a regular process or whether it is just last year's rate plus something to correct for inflation].
- C.5 Thinking about how you set apprentices' wages what do you take into account?
[ASK OPEN ENDED AND THEN PROMPT ABOUT THE FOLLOWING IF NOT MENTIONED: collective agreement (if applicable); a certain percentage of the fully skilled worker's wage (what percentage); the wages paid by competitors; national minimum wage for apprentices; national minimum wage by age].
- C.6 What are the most important factors which actually determine the apprentice's wage?
[CHECK TO FIND OUT WHY: e.g. because it is something which they have little flexibility to change]
- C.7 Thinking about the recent past, have apprentice wage rates been increasing or decreasing once inflation has been accounted for?
[PROMPT FOR: reasons why and whether this affects the way apprentices' wages have been set over the recent past. NOTE: the aim here is whether there are any pressures, unique to apprenticeships in the workplace, which may be placing a downward pressure on apprentice wage rates, such as the time which needs to be spent on off-the-job training, requests from providers for a contribution to training costs, levy recovery, etc.].
- C.8 Have any of the apprenticeship reforms introduced in May 2017 (such as the apprenticeship levy) affected your apprenticeship wage rates?
NOTE TO INTERVIEWER: There will be a need to refer back to the answer at B6 in case this has some bearing on apprentice wage rates. The particular interest here is whether it has led them to the inclusion of different factors when determining wage rates (e.g. time taken in off-the-job training), affected the wages of different groups separately (e.g. age groups)]
- C.9 Do apprentices work paid overtime, receive bonuses, tips, or any other additions to their remuneration?
[PROBE: for details of each additional element and amounts / also probe about how this would affect typical weekly pay]

- C.10 Does the apprentice's wage increase over time?
[PROBE FOR DETAILS: for example, if a multi-year apprenticeship, does the wage increase each year]
- C.11 Thinking about the recent past, have apprentice wage rates been increasing or decreasing once inflation has been accounted for?
[PROMPT FOR: reasons why and whether this affects the way apprentices' wages have been set over the recent past. Ask whether this varies by different types of apprenticeships (and if applicable, why).]
- C.12 At the start of the apprenticeship how much of the fully-skilled worker's wage will the apprentice earn? And how much is it at the end of the apprenticeship?
[NOTE: information is needed on the percentage of the fully-skilled worker's job in the occupation which the apprenticeship is linked]

D. The place of training

PREAMBLE: Explain to respondent that you would like to discuss a single apprenticeship (if there are more than one available in the workplace) – i.e. from the Framework/Standard quota sample that which is most numerous in the workplace and / or which the respondent feels best able to answer questions and is within scope of study). **APPRENTICESHIP FOCUS:** [INSERT NAME OF APPRENTICESHIP].

- D.1 How many hours a week does the typical apprentice work?
[IF UNSURE PROMPT WITH: approximate hours]
- D.2 How many hours a week or what percentage of overall hours are spent training?
IF UNSURE PROMPT WITH: approximate hours or percentages]
- D.3 What is the main way in which training is delivered?
[PROBE: about the structure of training – how much on-the-job and how much off-the-job, how much on-the-job]
- D.4 About how much of the apprentice's time is off-the-job training?
[PROBE: why this amount, is it considered necessary, etc.].
- D.5 Thinking about the off-the-job element, what does this comprise? And thinking about the on-the-job element what does that comprise and in what way does it differ from the off-the-job element?
[PROBE: about what training is delivered, how it is delivered, and where it is delivered (e.g. on the premises, at local training provider, etc.), and who delivers it].
- D.6 When is the off-the-job training delivered?
[NOTE: there may be a need to be flexible here with respect to what the respondent considers to be off-the-job training. The aim is to work with their definition. The overall aim of the questioning here is whether the off-the-job training is included in the apprentice's paid working hours (either in whole or part).]

- D.7 At the end of the formal training period, would you say that overall costs of training the apprentice are recovered by the work they contribute?

[NOTE: the aim here is to find out whether there is a net cost to the employer at the end of training period, whether there are pressures to make sure there is no net cost (if so, how is this achieved?) and if there is, how is this recouped?]

- D.7 How much of a cost pressure is the delivery of off-the-job element of the apprenticeship?

[ASK OPEN ENDED AND THEN PROBE, SENSITIVELY, ABOUT: ask whether this element is necessary and then explore how the employer might minimise this cost through, for example, expecting the apprentice to do some of this training in own time. PROBE SENSITIVELY: whether the actual paid hours of work per typical week differ from the actual hours worked. Are there other ways in which the employer has been able to offset some of the costs of meeting the 20% requirement.

E. National Minimum Wage

PREAMBLE: this final section of the interview schedule is about awareness of the National Minimum Wage Reiterate confidentiality.

- E.1 Are you aware that the National Minimum Wage sets a minimum amount for apprentices?

[PROBE: how aware of the respondent is about the regulation and whether it is much of an influence on their wage setting (if not covered already)].

- E.2 Are you aware that the minimum wage for apprentices may change depending on their age and how long they have been on their course?

[PROBE: how aware of the respondent is about the regulation and whether it is much of an influence on their wage setting (if not covered already), are they aware that for 19+ apprentices the rate changes after the first year].

- E.3 Overall, how much influence has the National Minimum Wage had upon the wages you pay apprentices or the way in which you deliver apprentices?

F. Impact of COVID-19

- F.1 Before the impact of COVID-19 what were your apprenticeship plans for 2020?

[PROBE: by different ages, which standards, levels, and existing/new staff].

- F.2 What will the impact of COVID-19 be on your apprenticeship plans for 2020/2021 now?

[NOTE: The interest here is understand how employers will fund apprenticeships if they decide to continue with them (e.g. reducing the overall cost of apprenticeship delivery)

G. Close interview

Ask respondent if there is anything else they would like to add about apprentice wage rates, then thank respondent and close interview.